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PROPOSED BUDGET REFORMS: A CRITICAL ANALYSIS

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COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

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LETTER OF TRANSMITTAL

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC, April 14, 1988.

The PRESIDENT OF THE SENATE,
U.S. Senate,
Washington, DC.

The Governmental Affairs Committee is pleased to publish three papers on budget reform. These papers are part of the Committee's continuing interest in ways of improving the budget process.

The first paper, by Professor Allen Schick, of the University of Maryland, was written at the Committee's request under the aegis of the Congressional Research Service. The paper presents an analysis of the impacts of 13 specific budget reforms on the size of the budget deficit, the budgetary powers of the President and the Congress, the distribution of power in Congress, the timely completion of Congressional budget action, and the enforcement of budget policies in Congress.

The second paper, by Roy Meyers, of the Congressional Budget Office, was contributed at the Committee's request because of its substantial contribution to an understanding of recent proposals for a biennial budget.

The third paper, also by Professor Schick, examines financial management reforms in the United States and other nations to determine the value of such reforms for improving managerial budgeting.

The Committee wishes to acknowledge the work of Professor Schick and Mr. Meyers and their agencies. The recommendations and conclusions contained in this report do not necessarily represent the views of the respective agencies.

We hope the enclosed reports will help build a better understanding of the basic impacts and potential contributions of budget reforms as the Committee moves ahead with its consideration of ways to improve the process.

Sincerely,

JOHN GLENN,
Chairman.

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

PROPOSED BUDGET REFORMS: A CRITICAL ANALYSIS

Prepared by Allen Schick
Consultant
Congressional Research Service
September, 1987

Introduction

Reform is a continuing feature of federal budgeting. The previous wave of reform culminated in the Congressional Budget Act of 1974 which, despite numerous improvisations during the past dozen years, still serves as the framework for annual budget action in Congress. The current wave is reflected in the numerous changes under consideration by Congress. More than 100 measures proposing changes in the budget process have been introduced thus far in the 1987 session of Congress.[1] Many of these would alter congressional budget procedures; some would affect the basic budgetary powers and roles of the legislative and executive branches.

The recent interest in budget reform has a number of sources. High deficits and the widely-felt need to repair the Gramm-Rudman-Hollings (GRH) process have spurred activity. Congress' habitual failure to complete much of its budget work on schedule and the frustrations of having to take up the same issues several times each session have also stimulated interest in reform. President Reagan's campaign to strengthen his budgetary powers and to limit those of Congress has added to the stockpile of ideas for change, though none of his proposals has been adopted thus far.[2]

Because of their diverse sources, the proposed reforms lack a unifying theme. There is a tendency to assess the various proposals individually, without much attention to how they relate to one another. There has been little consideration of whether the reforms reinforce or conflict with one another, or of whether

adoption of one change would augment or lessen the need for others. For example, enhancing the President's power to impound funds might be seen as a substitute for an item veto, so that implementation of the former might preclude the latter. On the other hand, a constitutional balanced budget amendment might stimulate interest in a separate capital budget. To properly assess proposed reforms, it is important that potential interactions with other changes be taken into account.

To do so in a systematic manner requires the specification of criteria for appraising the reforms in relation to one another. Because of the range and diversity of the reforms, no single criterion can cover all relevant factors. In analyzing each reform, one must consider how it might affect the internal operations of Congress, relationships between the legislative and executive branches, and the financial condition of the government. Part I of this report sets forth a number of criteria for examining pending reforms. These criteria are then applied in Part II to 13 proposed changes in the budget process. Attention is given to determining whether the proposals would substitute for or complement one another. These assessments are summarized in the concluding section.

Many reforms come in two or more versions and have features found in some proposals but not in others. To avoid having to deal with an excessive number of proposals, the various versions are listed under the main proposal to which they pertain. One must be mindful that these variations can make a big difference

in a proposal's impact. Key differences have to be considered in assessing the various reforms.

I. Criteria for Assessing Budget Reforms

Each age has its own expectations of budgeting and its own agenda for improving the process. It wasn't very long ago that reformers were confident that the budget could be shaped into a means of guiding the economy and planning government policies and programs. Today's objectives are more limited than those which animated past budget reforms, and are motivated more by dissatisfaction with existing procedures and outcomes than by positive notions of what constitutes effective budgeting. There is lacking in current reforms confidence in what can be accomplished by changing the process. Nowadays, many reforms are spurred by failure, by a belief that the process has broken down and does not work as it should. Current reforms are less animated by a sense of what budgeting might become than by a sense of what budgeting should not be.

This negative perspective has pointed reform inward to the workings of the process (such as the timing of budget actions and the roles of various participants) and away from external considerations (such as economic conditions and program effectiveness). The prevailing sentiment is that budgeting cannot do much good to improve fiscal policy or public programs unless it is first restored to health by curbing the deficit and stabilizing budget procedures.

The five criteria set forth below reflect this narrowed perspective. None relates to the performance of the economy or to the effectiveness of government programs. Rather, the

criteria pertain to the size of the budget deficit, the distribution of budgetary power, and the operations of Congress. The criteria focus on Congress because many of the proposed changes would have a greater impact on it than on the executive branch. This emphasis reflects a widespread, longstanding bias; when something is amiss in the Federal Government's finances, Congress is more prone to be blamed than the executive branch.

The five criteria applied in this report assess the potential impact of changes in the budget process on:

-- The size of the budget deficit;
-- The budgetary powers of the President and Congress;
-- The distribution of budgetary power in Congress;
-- The timely completion of congressional budget action;
-- The enforcement of budget policies in Congress;

These criteria are considered in terms of the changes that would ensue from budget reform. Assessment of possible changes inevitably entails some conjecture. One cannot be certain of how a particular modification in budget practice might affect the size of the deficit or the roles of participants. Not only might other factors intrude, but participants might adjust their behavior in ways that cannot be fully anticipated when the reforms are considered.

(1) The size of the budget deficit. Inasmuch as massive deficits have been an important stimulus to reform, it is

appropriate to examine proposals in terms of their potential impact on the size of the deficit. A strong case can be made for the proposition that under present circumstances Congress should not knowingly make any changes that would add to the deficit. Of course, Congress might do so unknowingly, either because of failure to correctly assess the consequences of change or because the reforms are not implemented as intended.

The size of the deficit, not the level of Federal spending, is the operational norm applied here. While some reformers prefer to curtail the deficit by reducing expenditures, others prefer to do so by producing additional revenues. The fiscal 1988 budget resolution adopted by Congress reflects a widely held view that significant deficit reduction cannot be achieved by spending cutbacks alone. However, in framing this criterion in terms of the deficit, no judgment is intended as to the manner in which the deficit might be lowered.

(2) The budgetary powers of the President and Congress. Nowadays, budgeting is a shared power, but the Constitution and Federal law give Congress the dominant role in revenue and spending policy. Congress alone has the power to levy taxes and to make appropriations; there is no constitutional limit on the amount it can tax, spend, or borrow. Executive agencies must spend funds in accord with the terms set in law. If they do not want to use appropriations, the President must go through the procedures of the Impoundment Control Act which gives Congress the final say over proposed rescissions or deferrals.[3] Congress

can take advantage of the President's limited veto power by packaging numerous provisions in a single measure such as a continuing resolution or an omnibus reconciliation bill.[4]

The President's budget power is largely a function of his political standing and skill. He submits a budget to Congress, but his influence often depends more on bargaining skills, public opinion, and the strength of his threats and promises than on formal budgetary powers. There have been times when these political resources have enabled the President to prevail against the superior constitutional and legal position of Congress. Such has not been the case in the past five years, however.

To redress what he regards as an imbalance of power, President Reagan has advocated a number of changes that would bolster his position and weaken that of Congress. The President has promoted his reforms with the claim that they would lead to less spending, lower taxes, and a smaller deficit. But the impact would surely spread beyond budgeting to the balance of power between the President and Congress. A powerful president could leverage his augmented budget powers to obtain congressional compliance with other demands.

To assess these political implications, one must distinguish the effects of reform on substantive budget outcomes from those on government institutions. Institutional changes should be considered in their own right, not simply in terms of spending or deficit levels. Moreover, it should not be presumed that the enhancement of presidential power and the diminution of Congress'

would inexorably reduce expenditures and deficits. One can readily identify circumstances, such as when the President wants to expand federal programs, in which a more potent Congress might act to constrain the rise in expenditures. And even when a stronger Congress might result in higher spending, one might nevertheless prefer this outcome to budget reforms that weaken the legislative branch.

(3) The distribution of budgetary power in Congress. A similar consideration pertains to the distribution of budgetary power in Congress. The effects of budget reform on committee roles and jurisdictions should be assessed independently of the impact on other aspects of federal budgeting.

The general thrust of current reforms is to make Congress a more integrated and centralized institution by reducing the number of committees that participate in budget decisions and by tightening the enforcement of these decisions.

To assess the possible effects of these changes, it is necessary to take account of the historical and political roots of budgetary fragmentation. One reason for fragmentation is that over the course of two centuries, an increasing number of committees have become involved in budget matters. When the national government was very small in the early 19th century, all financial measures were assigned to the House Ways and Means and the Senate Finance Committees. Nowadays, by contrast, four sets of committees--revenue, appropriations, authorizations, and budget--participate in budget decisions and vie for power and

jurisdiction.[5] This expansion corresponds to the growth of the national government and the felt need to divide budgetary labor on Capitol Hill.

Behind this centrifugal evolution of Congress lies the political imperative to fragment power over money. As an institution whose membership is differentiated by geographical and numerous other interests, Congress has not wanted a single set of committees to have complete jurisdiction over the government's revenues and expenditures. As the national budget has grown, so too has the dispersion of budgetary power. But bigger budgets and greater fragmentation have also spurred the search for means to coordinate the separate processes. The Budget Committees established in 1974 were intended to integrate congressional action on the budget, but, paradoxically, these coordinating committees have introduced a new kind of fragmentation in Congress. Spending and revenue decisions in budget resolution are separate from decisions made in statutes.

Judging from the various reforms proposed in recent years, many Members feel a need to pull together or consolidate the separate processes in Congress. In evaluating proposed changes, it is important to consider not only effects on committee jurisdictions, but the overall distribution of power in Congress. Realignment of committees is always a difficult task, but there may be ways to integrate budgetary action without tampering with committee jurisdictions.

(4) <u>The timely completion of congressional budget action</u>.

The inability of Congress to meet self-imposed budget deadlines has generated a great deal of dissatisfaction with the process. At the least, therefore, Congress should not make changes that would further complicate the process and impede action on authorizations, appropriations, budget resolutions, and reconciliation bills. In a more positive vein, Congress should favor reforms that simplify the budget process and remove barriers to timely action.

This criterion is closely related to the previous one concerning the distribution of legislative power. One of the conventional explanations of Congress' chronic inability to operate on schedule is the need to consider the same matter in each of several different measures. It has been claimed that committee realignment and the consolidation of processes would ease this burden. But the capacity of Congress to complete its budget work also depends on relations with the President. Significant changes in this relationship are likely to affect Congress' work schedule. The extent to which this relationship is cooperative or adversarial might have more to do with the process of budget legislation than would deadlines set in House and Senate rules.

(5) <u>The enforcement of budget policies in Congress</u>. The capacity of Congress to complete required budget work turns not only on the timeliness of legislative action but on its consistency as well. It is one thing to set policy in a non-statutory budget resolution, quite another to follow through in

revenue, spending, and other budget-related legislation. For example, Congress cannot be regarded as having completed its prescribed budget responsibilities until it passes a reconciliation bill that makes the changes in law called for in the budget resolution.

The enforcement criterion pertains to any actions or inactions of Congress which affect the achievement of adopted budget policies. However, the inability to meet budget targets can also be due to a number of factors beyond the direct control of Congress, such as adverse economic conditions, erroneous estimates (other than deliberate ones), the actions of executive agencies, and unforeseen events. These types of problems cannot be averted by stricter enforcement of budget decisions in Congress.

The 1974 Budget Act relied principally on two types of enforcement: points of order against breaches in the budget totals, and detailed information on the status of the budget and of congressional actions. The 1985 Gramm-Rudman-Hollings legislation tightened some budget controls, particularly in the Senate, but enforcement still concentrates on the aggregates.

A number of proposed reforms reflect the prevailing sentiment that the enforcement of budget policy is not sufficiently effective. The general thrust of the proposals is to strengthen controls with respect to functional and committee allocations, budget priorities, and outlays.

Enforcement is not solely a matter of making a budget and

sticking to it. It also relates to several other evaluative criteria, discussed in this report, especially the distribution of power in Congress and relations with the executive branch.

II. Assessment of Proposed Budget Reforms

Each of the proposals considered in this report would impinge on one or more of the criteria set forth in the previous section. Some would affect only one or two criteria; a few would pertain to all. This section takes up the proposals in alphabetical order. The discussion of each proposal is divided into four parts: first, the change and significant variants are described; second, the primary or intended affects are evaluated; third, important secondary effects are reviewed; finally, interactions with other budget reforms are identified.

All of the proposals discussed in this chapter are included in a recent report of the House Committee on Government Operations.[6] However, six items covered in the Government Operations Committee report have been excluded from the present discussion. Two of the excluded matters pertain to the Gramm-Rudman-Hollings process. It is anticipated that Congress will make decisions concerning that process in the current session. The four other items (budget baselines, budget status of trust funds, economic forecasts and assumptions, and government accounting procedures) deal with technical matters that have little direct bearing on the criteria considered in this report.

Authorizations-Appropriations Process

The consolidation of the appropriations and authorizations committees into "program" committees that would have jurisdiction over both substantive legislation and spending measures has been proposed from time to time as a means of simplifying the

legislative process, avoiding duplication and delay, and dealing with the problem of backdoor spending, that is, spending decisions made outside the appropriations process. Proponents of committee realignment believe that it would accelerate budget action in Congress and minimize inconsistency in congressional budget decisions. A consolidated authorizations-appropriations process would overtly redistribute legislative power and have far-reaching implications for the operation of Congress. This fusion could be achieved either by awarding jurisdiction over appropriations to the relevant authorizing committees, or by giving legislative jurisdiction over federal programs and agencies to the Appropriations Committees. For this discussion, it is assumed that separate authorizations and appropriations might still be passed for some programs, but there would be a tendency to place both types of measures in a single bill.

In terms of the criteria applied in this report, it makes a big difference which committees would survive. If authorizing committees were to gain spending jurisdiction, some might continue to behave as program advocates. This posture could lead to higher appropriations than might otherwise ensue. It bears recalling that this behavior occurred a century ago when the House and Senate assigned half of the appropriation bills to authorizing committees. If, on the other hand, the Appropriations Committees were to garner the combined jurisdiction, they would have a stronger capacity than heretofore

to control entitlement programs, and the result might be lower spending than would otherwise occur.

The distribution of budgetary power in Congress. With fewer committees, budgetary power would be more concentrated than in the past. But the difference would not be as great as would appear from the formal changes in committee jurisdictions. In many programs, only a single set of committees now has effective jurisdiction over both authorizations and appropriations. In some cases, the authorizing committees have the dominant role: in others the Appropriations Committees are in charge. Authorizing committees have custody of more than half of total Federal spending (mostly entitlements and interest payments) that is mandated by law. Even when the Appropriations Committees are involved in spending decisions for these programs, as they are for appropriated entitlements, their role and power are quite limited. They merely provide the funds mandated by authorizing legislation. On the other hand, the Appropriations Committees generally are the only committees making budget-related decisions each year for the many federal programs operating under permanent authorization. There are a number of areas--defense is the most prominent--where both the authorizing and appropriations committees make annual budget decisions. These are the parts of the budget that would be most affected by committee realignment.

Combining the committees might produce less fragmentation but more polarization. In place of today's complex, multilateral relationships, there might be a head-on clash between the budget

committees and the newly merged committees for control of the federal budget. The status of the Budget Committees would depend almost entirely on their capacity to dictate spending policy to the new committees. The Budget Committees would have few inducements to offer these committees for their cooperation. The role of the merged committees would depend on their success in escaping budget control. In these circumstances, budgetary conflict would be more direct and intensive than in the past, and possibly more intractable as well.

While it is difficult to foresee how the power struggle would end, it should not be presumed that the result will be a stronger, more disciplined congressional budget process.

Other criteria. At first glance, one might conclude that committee consolidation would facilitate the timely completion of budget work in Congress. The opposite might result, however, with fewer committees generating more delay. The fusion of authorizing and appropriations jurisdiction would encourage, to an even greater extent than heretofore, the insertion of substantive legislation into money bills. Inasmuch as conflict over these provisions is apt to be more divisive than over spending levels, the merger might complicate the progress of appropriation bills. Indeed, it was to avoid delays caused by conflict over substantive provisions that the House and Senate rules long ago barred legislation in appropriation bills.

The President's veto power might be slightly weakened by the consolidation. When a single measure contains both

appropriations and substantive legislation, as now often occurs in continuing resolutions, the President might feel compelled to accept the latter in order to gain the former. But inasmuch as numerous substantive provisions already find their way into appropriation bills, consolidation should not add substantially to this practice.

Interactions. Abolition of the Budget Committees and assignment of their role in fiscal policy and budget priorities to the Appropriations Committees has been proposed as an alternative realignment. If this option were adopted, it could preclude the consolidation of the authorizing and appropriations committees.

Balanced Budget Amendment

President Reagan and others have urged that the Constitution be amended to require that the federal budget be balanced each year. They argue that statutory requirements, such as the Gramm-Rudman-Hollings law are inadequate protections against deficits because Congress can change the laws imposing these requirements. According to some counts, 32 states have petitioned Congress for a constitutional convention to consider a balanced budget amendment. The Constitution provides for a convention upon application by two-thirds (34) of the states.

The balanced budget amendment has been proposed in a number of versions. Some would require that receipts and outlays actually be balanced each fiscal year; others would only require that Congress approve a budget with a planned balance. Some

versions would be coupled to a constitutional limitation on total federal spending; others, to restrictions on the power of Congress to increase taxes.

A constitutional balanced budget requirement might have profound implications for the conduct of government. While its primary purpose would be to eliminate deficits, a constitutional amendment would also affect executive-legislative relations and the operations of Congress.

Size of the deficit. The effect of a constitutional amendment would obviously depend on whether it prescribes an actual or only a planned balance. In the latter version, an unplanned deficit could materialize if economic conditions worsened, or if the estimates relied on in preparing the budget proved to be faulty. Either version would likely have escape clauses permitting a deficit in time of war, severe recession, or (in some proposals) by an extraordinary majority in Congress. The potency of a constitutional amendment would depend on the manner in which it was implemented by Congress and interpreted by the courts. Both institutions would have influential roles in defining the scope of the budget, especially with respect to the status of any offbudget entities that might be established by Congress. Judging from the behavior of some states which have balanced budget requirement (or other restrictions on debt financing), Congress might become more active in devising offbudget entities, and in shifting financial transactions from the budget to other accounts. One should not be surprised if

federal courts were called upon to rule on whether these entities and transactions should be included in the computation of budget receipts and outlays.

Even if offbudget activities were to become more prominent, a balanced budget amendment would almost certainly lead to smaller deficits, lower spending, and somewhat higher tax rates than might otherwise prevail. A constitutional requirement would not eliminate the deficit during recessions when federal revenues drop automatically. If the gap between revenue and expenditure was small, Congress and the President should have little difficulty meeting the constitutional requirement. But if (as has been the situation in recent years), the gap was very wide, there might be no politically acceptable means of balancing the budget, and Congress (with or without White House cooperation) might seek to evade the requirement.

Other criteria. A balanced budget rule would impel Congress to tighten the enforcement of its budget policies, especially with respect to outlays. Congress could not permit a situation where the balanced budget approved in a budget resolution (or some other measure) was ignored in subsequent revenue or spending legislation. Pursuant to a balanced budget requirement, Congress would probably strengthen its monitoring and control of appropriations; it might also modify the reconciliation process to ensure that planned deficit reductions were enacted into law.

A balanced budget amendment would undoubtedly affect presidential-congressional relations, but in ways that cannot be

clearly foreseen. One possible scenario is that while the President would be more constrained in preparing his budget, he would face a more compliant Congress. With its options narrowed by the constitutional restriction, Congress might find it difficult to deviate from the President's budget policies. Another possibility, however, would be for Congress to recognize that with fewer options the only way it can influence the budget is by taking a more independent stand and setting its own policies.

Interactions. Congress might find the omnibus budget a convenient vehicle for enacting revenue and spending legislation in conformance with the balanced budget rule. An omnibus process would bring all the elements of a balanced budget together in a single measure: a planned balance, appropriations consistent with that policy, and any necessary changes in revenue and entitlement laws.

With a balanced budget rule in place, the President might demand increased power to regulate expenditures. President Reagan has requested an item veto and enhanced rescission power; it is conceivable that Congress would make these augmented powers available when a deficit was threatened. Alternatively, Congress might prefer to rely on sequestration procedures that dictate how and where spending is to be cut and give the President less discretion than he would have through an item veto or rescission.

The balanced budget would give impetus to the drive for a separate capital budget. One should not be surprised if

legislation implementing a new constitutional amendment were to define balance in terms of current revenue and expenditure, thereby permitting the debt financing of capital improvements.

Biennial Budgeting

Biennial budgeting would shift the federal government from an annual to a two-year cycle. The impetus for a biennial budget has come from recent difficulty faced by Congress in completing its numerous budget responsibilities within the time constraints of the annual legislative session. It has been argued that a biennial cycle would encourage long-term program and financial planning and would free time for other legislative responsibilities.

Biennial budgeting could turn out to be little more than a scheduling change, or it could radiate to other aspects of congressional behavior. A key determinant would be the scope of biennial budgeting; another would be the extent to which Congress adheres to a 2-year schedule. Biennial budgeting might be limited to authorizing legislation, or it might be extended to other budget actions, such as the budget resolution and appropriation bills. A 2-year minimum for authorizations might ease congressional workload; a 2-year appropriations process would have a more far-ranging impact.

In assessing the potential implications of a biennial process, one must assume that Congress will operate on this timetable and not revert to annual budget decisions. In view of Congress' continuing inability to meet budget deadlines, this is

a shaky assumption. One can readily envision Congress making annual adjustments in its two-year budgets, with these adjustments becoming so prominent that they are the real means of making budget decisions. If this occurs, Congress would have an annual cycle under the guise of a 2-year schedule.

The timely completion of budget work. A biennial process can be structured to facilitate the timely completion of budget work and other legislative tasks. Various proposals for biennial budgeting provide for each two-year Congress to be zoned into distinct periods for oversight, authorizations, budget decisions, and appropriations. These activities would be sequenced so as to enable Congress to complete one type of activity before starting on the next. The prescribed sequence would be enforced solely by House and Senate rules, so that Congress would have multiple means of waiving or altering the schedule.

Efforts to establish an orderly two-year process face two threats. One is the temptation to remake all or part of the budget year; the other is the temptation to defer difficult decisions as long as possible. It is highly unlikely that Congress would refrain from making new appropriations in the offyear; it is likely that Congress would avoid difficult actions to cut future deficits by waiting another year to see whether pressure for spending reductions or tax increases has diminished.

If it were to maintain a 2-year cycle with certain periods set aside for particular types of legislative activity, Congress would give greater scope to authorizations than has been

customary in recent years. As the legislative calendar has become more congested, action on discretionary authorizations--whose funding is provided in annual appropriations--has often been crowded out. With time reserved in the two-year cycle for authorizations, Congress should have greater success in completing work on these measures.

Other criteria. A two-year cycle could prove to be a mixed blessing for budget enforcement and deficit control. The fact that decisions would be made for 2-years should enhance the capacity of Congress to implement multiyear targets. This could be a major advance over the current practice of enforcing the targets only for the next fiscal year. With multiyear enforcement, there would be less advantage in shifting outlays from one year to another through timing changes that do not really alter spending levels. On the other side of the ledger, multiyear understandings can age rather quickly and be overtaken by new developments. It might be hard to bind Congress next year to the budget decisions it took this year.

Biennial budgets might also be a mixed blessing for deficit reduction. If Congress were to adhere to a 2-year budget, there would be less opportunity for the incremental rise in expenditure during the offyear. But this advantage might be outweighed by the tendency to project a rosy future with economic conditions improving, deficits declining, and room in out-year budgets for spending initiatives. Given the prevalence of buoyant projections, it might prove expedient for Congress to avoid tough

choices and to resolve budget disputes by loading added expenditure onto the second year of the cycle. The Rose Garden agreement negotiated by the White House and Senate Republican leaders in 1984 was an example of this behavior. It called for no real increase in defense spending in the first year, and 3% increases in each of the next two years.

Biennial budgeting would alter congressional-executive relations, strengthening some aspects of legislative control and weakening others. Congress would have more time for vigorous oversight during the period reserved for this purpose, but it would have fewer opportunities to control agencies through the appropriations process. For 200 years, annual appropriations have been regarded as a bulwark of legislative control of the purse. It remains to be seen whether an extended appropriation cycle would weaken Congress' control.

Interactions. A biennial process would probably be accompanied by changes in enforcement procedures and in the reconciliation process. There is a high probability that existing enforcement mechanisms, such as scorekeeping reports and section 302 crosswalks would be extended to 2-years, with the same rules and restrictions applicable to both years. A 2-year cycle might diminish interest in a consolidated authorizations-appropriations process. With Congress organized to handle these two types of work in different time periods, the main reason for consolidation would no longer apply. If it were to make 2-year appropriations, Congress would have to give careful consideration

to the continuing resolution problem. It would not be a good idea for the government to operate on a continuing resolution for two years.

Capital Budget

A capital budget would separate the Government's investment in physical assets (and possibly other investments as well) from the operating budget. The revenues and outlays associated with these investments would not be included in computing the operating deficit. But the operating budget would be charged for debt service and/or depreciation. It is often assumed that the capital budget would be financed by borrowed funds, but having a separate budget does not preclude the use of current revenue to finance capital improvements.

Introduction of a capital budget might be linked to other changes in budgeting and financial management. The federal government might publish a financial statement showing its assets and net worth. On its balance sheet, the issuance of debt to finance the acquisition of capital assets would not change the government's net worth. Nor would the sale of assets add to current receipts or lower the operating deficit. In line with these accounting adjustments, the budgetary status of loans and loan assets might be revised to show the effect of these types of transactions on the government's net worth.

Size of the deficit. A capital budget can provide a useful guideline for regulating the size of the deficit. Nowadays, the government lacks objective criteria for determining whether a

particular amount of debt financing is appropriate; a capital budget can provide one such rule: the amount borrowed should not cause a decline in the government's net worth. A capital budget would probably lead to greater acceptance of borrowing for investment, and it would permit a larger overall deficit than would a constitutional balanced budget rule applied to all federal finances.

If a separate capital budget were introduced without a companion requirement that the operating budget be balanced, it might merely establish a floor for higher overall deficits.

In considering the possible impact of capital budgeting on the deficit, a key question is what constitutes a capital outlay. Some definitions would restrict the capital budget to physical assets (such as roads and buildings) financed and owned by the federal government and having use for more than one year. Other definitions would include investment in human capital, research and development, and the acquisition of capital assets. There is a vast difference between the most and the least restrictive definitions. The broadest definition would cover more than $200 billion in fiscal 1988 outlays; the narrowest would cover only about one tenth of that amount.[7]

The amount of capital outlay, and possibly therefore the allowable deficit, depends on the treatment of defense procurement and of state or local investments financed by federal grants. Capitalizing defense outlays would raise complex questions relating to depreciation schedules, the budgetary

treatment of wartime expenditures, and write-downs for losses. More than half of the federal expenditures for nondefense physical assets are in the form of grants to state and local governments. The assets financed by these grants are not owned by the federal government, they would not appear on its balance sheet, and do not add to its net worth. If defense expenditures, grant-financed investment, and human capital were excluded, not much would remain in the capital budget.

Other criteria. While it would entail significant changes in accounting practices, a capital budget would have modest impact on other aspects of federal budgeting. It might mildly complicate executive and congressional budgeting (because there would be two distinct budgets), but state and local experience with dual budgets suggests that adjustment to capital budgeting should be smooth.

Interactions. As previously discussed, a capital budget might accompany adoption of a balanced budget rule. Minor adjustments would have to be made in congressional budget procedures to accommodate a separate capital budget.

Congressional Budget Resolution

The congressional budget process has been in a state of continual reform since its establishment in 1974. As a result, the process has not been carried out in precisely the same manner two years in a row. The major refinements introduced in the past dozen years include multiyear targets, credit budgeting, an invigorated reconciliation process, one rather than two

resolutions, Gramm-Rudman-Hollings procedures, and outlay controls. Current reform proposals range from weakening the process by abolishing the Budget Committees to strengthening it by making budget decisions in a statutory (rather than a concurrent) resolution. The wide range of proposed reforms reflects controversy over the role and effectiveness of the budget process.

The proposal for a statutory resolution is the only change considered in this subsection. (Other relevant proposals are discussed elsewhere in this report; they include an omnibus budget process, changes in the reconciliation process, and outlay controls.) Proposals to abolish the Budget Committees are not considered here because the report examines reforms in the context of the existing budget process. It is difficult to foresee what might ensue if these committees were abolished. Would the congressional budget process also be abolished along with the committees or would the task of establishing fiscal policy and budget priorities be assigned to other committees? Would Congress rely on ad hoc committees as it did in the legislative budget debacle of the 1940s or would it give the job to the Appropriations Committees? Would termination of the Budget Committees also mean the end of budget resolutions, or would Congress still set budget policy in these measures? These and other questions suggest some of the uncertainties that would attend abolition of the Budget Committees.

The budgetary powers of the President and Congress. The

White House has evinced interest in a statutory resolution, primarily because the President would gain a formal role in the making of congressional budget decisions. In addition, a statutory resolution would strengthen the President's capacity to obtain congressional compliance with budget agreements worked out between the two branches.

A statutory resolution would change the budgetary relationship of the legislative and executive branches. When the budget process was established in the 1970s, it was perceived in Congress as a means of asserting budgetary independence from the White House. Over the years, however, the process has evolved into one of shared power, although the President's role has not been formally recognized in law. Rather, there have been occasional budget negotiations between presidential aides and congressional leaders, such as the 1980 summit meeting that led to a revision of President Carter's budget and the 1984 Rose Garden agreement with Senate Republican leaders.[8]

A statutory resolution could be vetoed by a president who disagreed with the budget policies approved by Congress. In view of party divisions on budget resolutions, it is highly unlikely that a veto would be overriden by Congress.[9] Under a statutory arrangement, therefore, the President would be in a much stronger position than now to impose his budget preferences or to block those of Congress. Moreover, the President would be better positioned to obtain implementation of his budget policies in revenue and spending legislation. The more strictly Congress

enforced its adopted budget policies, the greater would be the President's capacity to ensure enactment of his preferences.

Other criteria. A statutory resolution would have the potential of redistributing power in Congress. The Budget Committees would have a statutory basis for demanding compliance with the resolution, and other committees might have a bit less flexibility in deviating from the adopted budget totals and functional allocations. The redistributive impact would depend on the extent to which Congress tightened enforcement of its budget decisions.

One can easily foresee circumstances in which having a statutory resolution would expedite congressional budget action as well as circumstances in which action on the budget would be impeded. If a statutory resolution were to spur an early congressional-presidential agreement on the budget, Congress might complete its work in a more timely fashion than heretofore. But if the two branches were unable to agree on budget policies, adoption of the budget might be impossible. Indeed, if the White House were to take the position, as it has in some years, that having no resolution is preferable to adopting Congress' version, continuation of the congressional budget process might be jeopardized.

Interactions. A statutory resolution would fit well with proposals to tighten enforcement of congressional budget decisions. It also could be melded into an omnibus budget process covering all the revenue and spending legislation

necessary to implement the adopted budget resolution.

Continuing Resolution

Continuing resolutions provide stopgap funding to agencies lacking regular appropriations at the start of the fiscal year. These measures have been used for 100 years, but they have been transformed in the 1980s into substitutes for regular appropriation bills. Rather than provide interim funds for only a short period of time, recent continuing resolutions have made appropriations for the full fiscal year. Moreover, rather than funding programs at a continuation rate (usually defined as the lower of the previous' year's level or of the President's budget request), recent continuing resolutions have provided increases for many programs. The continuing resolution has become a vehicle for the enactment of numerous substantive provisions, including much authorizing legislation.

In response to these developments and the disruptions caused when agencies lack funds at the start of the fiscal year, proposals have been offered for an automatic continuing resolution that would take effect without any congressional action at the start of the fiscal year. Other proposals have called for restrictions on the amounts or matters that can be enacted in a continuing resolution.[10]

An automatic continuing resolution, the reform discussed in this subsection, would be a stopgap measure. Funding would be fixed at a continuation rate; any increases would have to be provided in regular appropriation bills. It is expected that the

low continuation level and other restrictions would give Congress and the President a strong incentive to act on the regular appropriations.

Although its principal aim would be to spur action on budget matters in Congress, an automatic continuing resolution would inevitably change the budgetary relationships of the executive and legislative branches.

The completion of budget work in Congress. An automatic continuing resolution can be a disincentive to enactment of regular appropriations. After all, with appropriations forthcoming despite legislative inaction, Congress could avoid tough votes on spending matters. Proponents of an automatic continuing resolution believe, however, that the low continuation rate, perhaps even below current spending levels, would provide incentives for the enactment of the regular appropriations bills. It is argued that while Congress and the White House might accept a low rate as a temporary measure, neither would be willing to have it in effect for the full fiscal year. Nevertheless, when (as has often been the case in recent years) the enactment of appropriations is impeded by conflict over spending levels or substantive provisions, an automatic continuing resolution might be a convenient escape from the issues. It is not hard to foresee circumstances in which an automatic appropriation would continue in effect for the entire fiscal year.

Other criteria. In view of the use to which continuing resolutions have been put in recent years, an automatic measure

might give the President considerable advantage in the ongoing budget battle between the two branches. An automatic measure would diminish the capacity of Congress to package all (or most) regular appropriations in a continuing resolution. Faced with a "take everything or lose it all" threat, President Reagan has accepted appropriations which he might have vetoed if they were presented to him in separate bills. To the extent that it induces Congress to pass individual appropriation bills, an automatic continuing resolution would enable the President to selectively veto these bills.

To rule out possible advantage to either branch, an automatic continuing resolution must be equally painful to both the president and Congress. But with spending automatically pegged at the lower of the previous year's or his budget's level, the President would prevail when he wants deep cuts that are opposed by Congress. His proposed cutbacks would take effect without legislative approval, and he could keep them in effect by vetoing any increases passed by Congress.

Interactions. Some have proposed that a procedure be established to enroll the constituent parts of omnibus continuing resolutions separately. This procedure would enable the President to veto any of the regular appropriation bills contained in the continuing resolution as if it had been enacted separately. This power would stop short of an item veto--the President would have to sign or veto each regular appropriation in its entirety--but it would diminish the incentive to enact

omnibus continuing resolutions. Proposals have also been made to strengthen the President's power to impound funds provided in continuing resolutions.

The Credit Budget

The introduction of a credit budget has been one of the major budgetary developments of this decade. In its present form, the credit budget is distinct from but parallels the regular budget. Amounts are set forth in the budget resolution (both in the aggregate and in the functional allocation) for direct and guaranteed loans. Most loan programs are established in authorizing legislation, but limitations on the annual volume of many direct and guaranteed loans are set in annual appropriations bills.

While the regular budget reflects direct loans but excludes loan guarantees, the parallel credit budget includes both types of loans. The Office of Management and Budget (OMB) has proposed to integrate the credit budget with the expenditure budget by accounting for the subsidy value of these loans as budget outlays. The government would no longer record the net amount of new direct loans (new loans minus repayment of old loans) as outlays; instead, it would resell the new loans and show the subsidy (the difference between the face value and market price) as outlays. OMB has proposed that these loans be marketed without recourse (without a government guarantee) which would result in a somewhat lower resale price (and higher subsidy) than

if they were guaranteed. Others, such as GAO, have recommended that the loans be sold with recourse.

OMB's credit reform envisions that the government would purchase private reinsurance for guaranteed loans. The cost of reinsurance would represent the present value of the subsidy and would be budgeted as an outlay.

Other credit reform proposals would alter accounting rules for the sale of loan assets. In the past, income from the sale of these (and other) assets were accounted for as negative expenditures. It was possible to reduce expenditures and the deficit by selling some loan assets. The fiscal 1988 budget resolution (H. Con. Res. 93) has a "sense of the Congress" provision stating that amounts realized from the sale of assets shall not be treated as receipts or negative expenditures. (A similar provision is in the legislation revising the Gramm-Rudman-Hollings process.)

Changes in the budgetary status of loans would affect the size of the deficit. These changes would also have an impact on the enforcement of budget policy in Congress.

Size of the deficit. Some of the accounting changes would lower the deficit; others would raise it. The overall impact will depend on whether new accounting rules are applied only to new loans or to old ones as well.

Consider a situation in which accounting changes were applied only to new loans, but that both these and previously issued loans were resold. The subsidy value of the new loans

(the spread between their face value and sale price) would be budgeted as outlays, but this amount might be more than offset by income from the sale of existing loans. In this way, it would be possible to produce a sizable reduction in the deficit without cutting programs or raising taxes. (The cost of reinsuring guarantees would add less than $1 billion to outlays and the deficit, much less than the amount that might be recovered from selling existing direct loans.)

Alternatively, if the rules were changed only for old loans (such as would be the effect of the fiscal 1988 budget resolution), the reported deficit would increase. The increase would occur because the government would no longer be able to offset some outlays by selling loan assets.

Other criteria. Because modifications in accounting rules would affect the deficit, they also would have an impact on the enforcement of budget policy. At present, part of the deficit reduction targeted in the Gramm-Rudman-Hollings process or in reconciliation instructions can be met by asset sales. If income from these sales were no longer recorded as negative outlays, committees and Congress would have to reduce the deficit through more conventional means, such as curtailing programs or increasing revenues. (There may be other ways to reduce the deficit, such as changes in the timing of financial transactions.)

Interactions. The credit budget can be assessed in isolation from other proposed reforms. It should be noted,

however, with increased use of annual appropriation bills to limit the amount of direct and guaranteed loans, changes in the appropriations process such as adoption of an automatic continuing resolution, might affect the amount of loan activity.

Debt Limit

In recent times, Congress has raised the statutory limit on the public debt at least once a year, sometimes twice or more often. These debt limit measures occasion a great deal of conflict, are often used as vehicles for extraneous legislation, and tend to be delayed until the last minute, thereby disrupting the government's financing of its debt. To ameliorate these problems, it has been proposed that the debt limit be adjusted as part of the process of adopting a budget resolution.

Since 1979, the House has had a procedure for automatically passing a joint resolution that adjusts the debt limit in the amount set forth in the budget resolution. However, the Senate does not have a comparable procedure and it must vote expressly on the debt limit. Moreover, because the Senate often amends the debt limit measure, the House also has to take further action on the matter. If the Senate had an automatic procedure, the debt limit would be adjusted without additional votes in either chamber.

Completion of budget work in Congress. An automatic adjustment would expedite completion of work on the budget. Congress would no longer have to wrestle with this matter for weeks or longer. There is a slight possibility that action on

the budget resolution might be complicated by giving the debt limit provision statutory effect, but judging from almost a decade of House experience with this procedure, the impact should not be substantial.

Other criteria. While the debt limit does not deal directly with the deficit, the need to raise the limit periodically may impel Congress to deal more forthrightly with the deficit problem. The Gramm-Rudman-Hollings process was established in a 1985 amendment to the debt limit legislation, and adjustments in this process are likely to be legislated in a similar manner. This opportunity to act on the deficit would be lost if the debt limit were adjusted automatically.

Interactions. If Congress were to covert the budget resolution into a statute, the debt limit would be adjusted as part of this legislation, and there would be no need for an automatic procedure.

Impoundment Process

Impoundment is a presidential power that is subject to congressional review. Any significant change in the rules of impoundment would inevitably alter the balance of power between the President and Congress. The current rules were spelled out in the Impoundment Control Act of 1974 which divides impoundments into two categories: recissions which cancel budget resources provided by Congress; and deferrals which delay the obligation of expenditure of these resources. Proposals have been made to change the procedures governing both types of impoundment.

Funds proposed for rescission by the President must be released unless Congress rescinds them within a 45-day period. While there is no requirement that Congress act during this period, if it does not, the President cannot continue to impound the funds. President Reagan has asked for "enhanced recission authority" which would permit the continued impoundment of funds unless Congress rejects the proposed rescission. An alternative would be an "expedited rescission procedure" requiring Congress to act on proposed rescissions within a fixed time limit.

The Impoundment Control Act provides that deferred funds may continue to be impounded (but not beyond the fiscal year) unless the House or Senate passes a disapproval resolution. However, this form of legislative veto was ruled unconstitutional by the Supreme Court in 1983. Since then, Congress and the White House have operated under an informal understanding which provides for the President to release deferred funds if Congress disapproves the deferral by legislative action. Some have proposed that the President be permitted to defer funds only for the routine purposes permitted by the Antideficiency Act, and that deferrals for policy reasons be outlawed.[11]

The President has asked for a stronger impoundment power on the ground that he would be in a better position to reduce spending and the deficit by eliminating wasteful expenditures that are hidden in continuing resolutions of other omnibus measures. The main practical effect, however, would be to

bolster the President's budgetary powers and to weaken those of Congress.

Congressional-presidential relations. The impoundment power goes to the heart of the budgetary relationship of the President and Congress. Every impoundment constitutes a situation in which Congress first provides, and the President then withholds, funds. The inherent conflict between the two branches is regulated by procedures governing the submission and review of impoundments.

Enhanced rescission authority would make the President a much stronger participant in the budget process. His proposed rescissions would continue if Congress failed to muster a majority disapproving them. The rescission rules would be reversed: the President, not Congress, would prevail in case of legislative inaction. The President would also gain, though to a lesser degree, from expedited procedures. Rules changes that compel Congress to act would prevent it from terminating proposed rescissions passively.

The outcomes of rescissions and deferrals proposed since 1974 provide conclusive evidence that the branch that prevails in case of legislative inaction on impoundments has the advantage. In every year, the percentage of rescissions continued in effect by legislative approval has been below the percentage of deferrals continued in effect by legislative inaction.[12] If the rescission rules were made comparable to those for deferral--and both types of impoundment would continue unless Congress

disapproved--the President probably would have a higher success rate.

Presidential success in impoundment, as in other contests with Congress, depends not only on procedure but also on the President's political standing. Despite the fact that current rules terminate rescissions in case of inaction, President Reagan won congressional approval of almost $15 billion of rescissions--90% of the amount he requested-- in the 1981 fiscal year. This feat demonstrates that a popular President with strong public support can effectively impound funds without any enhancement of his rescission power. On the other hand, when support for his budget policies waned, President Reagan had little success in obtaining congressional approval of proposed rescission. In some years, the approval rate has been zero.

Other criteria. The argument that stronger impoundment powers would enable the President to lower the deficit by withholding funds provided in excess of his budget request has to be examined in terms of the composition of federal expenditure. More than three-quarters of total federal spending would not be subject to impoundment, most for legal reasons, some for political ones.[13] The President cannot impound the more than 50% of federal outlays spent on interest charges and other mandatory payments, and he is not likely to impound the almost 30% allocated to national defense.[14] The remaining outlays, for nondefense discretionary programs are the ones most likely to be impounded.

Recent appropriations for many of these programs have been in excess of the amounts requested by the President. If the President were to successfully rescind all congressional add ons to these discretionary programs, federal outlays and deficits might be billions of dollars lower. Two factors strongly suggest, however, that the amount actually rescinded would be much less than the amount added on. First, the same congressional majority that added the funds could overturn a presidential rescission. (The willingness of Congress to disapprove presidential impoundments is indicated by the disapproval of many proposed deferrals. While the disapproval rate has rarely been above 40%, this includes many routine deferrals that entail no dispute over policy.) Second, in the course of making appropriations, Congress might negotiate quid pro quos that would give the President funds for his priorities in exchange for a commitment not to impound congressional add ons.

Interactions. Enhanced rescission authority is a substitute for an item veto and could complement controls on continuing resolutions and other omnibus budget measures. It is highly unlikely that Congress would grant the President both an item veto and stronger impoundment powers. The two reforms are not perfect substitutes, however; differences between them are discussed in the next subsection on the item veto. Enhancing the President's rescission authority might be one way of dealing with the omnimus budget problem without making drastic changes in

legislative procedure. If the enhancement of rescission authority were confined to funds provided in omnibus measures, Congress would have less incentive to make all regular appropriations in a massive continuing resolution.

Item Veto

The item veto would enable the President to veto portions of appropriation bills, including parts of continuing resolutions. For purposes of the veto, an item might be an appropriation account or one of the general provisions in an appropriation bill. A stronger version of the item veto would extend it to parts of an appropriation account, such as any program or project mentioned in it. An item veto would not extend, however, to matters mentioned in committee reports but not in the text of appropriation bills. While some proposals envision implementing an item veto by legislation, an extended version reaching to elements of an appropriation account would almost certainly require a constitutional amendment.

Budgetary Powers of the President and Congress. The demand for an item veto is based on the claim that it would reduce federal spending and deficits. Its main impact, however, might be to redistribute power from the legislative to the executive branch.

The President's interest in an item veto has been whetted by two characteristics of recent appropriation bills: (1) the tendency of Congress to package multiple appropriation bills into a single continuing resolution; and (2) the insertion of an

increasing number of substantive provisions into these bills. Armed with an item veto, the President would no longer be faced with an all-or-nothing predicament in continuing resolutions. By enabling the President to pick and choose among the items, an item veto would take away much of the advantage Congress now has in continuing resolutions. (A limited form of item veto would empower the President to veto in its entirety any of the regular appropriation acts enacted in a continuing resolution.) The President also would gain by being able to excise substantive provisions, both limitations and legislation, from appropriation bills passed by Congress.

The reach of an item veto would determine the extent to which the President would gain. The greatest presidential advantage would come from a version of the item veto that authorizes the veto or reduction of parts of appropriation accounts. The power to reduce the amount of appropriations would be especially valuable because spending disputes between the President and Congress almost always relate to the level of appropriation. The least potent form of item veto would permit the President to sign or veto an entire account. Because federal appropriations are made in a relatively small number of accounts, each major account consists of a large number of discrete programs or activities. It is not uncommon for an agency (or one of its major administrative subdivisions) to obtain all its operating funds from a single account. In fact, there are many fewer appropriation accounts in today's trillion dollar budget

than there were in the $300 million budgets of a century ago. Contemporary appropriation language tends to be brief and general, with details on specific projects and activities provided in supporting schedules and Appropriations Committees reports. Presumably, the item veto would reach only to the appropriations, not to backup schedules or committee reports.

Other criteria. The discussion in the previous subsection on the possible effect of enhanced rescission authority on the size of the deficit pertains to the item veto as well. The item veto could not be applied to permanent appropriations, appropriated entitlements, and funds provided in authorizing legislation. It is not likely to be applied to defense programs, and most likely to be used in nondefense discretionary programs.

The potency of an item veto might lie in threatened rather than actual use. If the President threatened a veto, Congress might be less inclined to appropriate add-ons and there would be no need to carry out the threat. Some have suggested, however, that an item veto might eventuate in higher spending levels. Their argument is that in exchange for obtaining higher appropriations for the items he wants, the President would agree to higher appropriations for the items Congress prefers. While this type of exchange can certainly occur, it can also do so in the absence of an item veto.

An item veto might have a mixed effect on the timely enactment of appropriations. With the incentive for continuing resolutions substantially diminished, the House and Senate might

move ahead more expeditiously on the regular appropriation bills. On the other hand, Congress might have to deal with a large batch of item vetoes after it has completed work on the appropriation bills.

Interactions. It was noted in the previous subsection that the item veto and enhanced rescission authority might be regarded as substitutes for one another. The key differences between the two reforms are:

1. A proposed rescission could be terminated by majority vote; an item veto could be overturned only by a two-thirds vote;

2. A rescission could affect projects and activities not mentioned in the appropriations law; an item veto would reach only to the entire appropriation account or to an element of the account mentioned in the law; and

3. A rescission could reduce funds for a program or activity; most versions of the item veto would only permit the entire funding to be eliminated.

Omnibus Budget Legislation

Although Congress has enacted a number of omnibus reconciliation and appropriation bills, it still divides the major components of the budget into separate measures. To remedy the problems arising from fragmentation, a proposal has been advanced for a comprehensive budget measure containing all the elements of annual budget actions in Congress. The omnibus measure would include (a budget plan comparable to a budget

resolution), regular appropriations, tax legislation, and changes in entitlements.

The omnibus measure is intended to strengthen the enforcement of congressional budget policy, but it would also affect the timeliness of budget action and executive-legislative relations.

Enforcement of congressional budget policy. Because the adoption of congressional budget policy is separate from the action required to implement those policies, it is not uncommon for some Members to vote for smaller deficits in the budget resolution but against the tax increases or spending cuts that would actually reduce the deficit. By placing all these actions in a single measure, Congress could more easily maintain a consistent budget policy. It would not give final approval to the budget plan until it had also approved any required revenue and spending changes.

Other criteria. The omnibus measure would expedite congressional action if it works according to design but would block action on all budget matters if it breaks down. The possibility of breakdown should not be lightly dismissed. Completion of action on the whole measure could be held up by disagreement on any of its parts. The prospect of conflict is heightened by the likelihood that this omnibus measure, like recent reconciliation bills and continuing resolutions, would be a vehicle for extraneous provisions.

Moreover, the sheer complexity of the omnibus bill--its

potentially awesome size, the number of committees whose work would have to be coordinated, and the reliance on an unprecedented number of subconferences and conferees--could impede action.

An omnibus budget process would affect congressional-presidential relations. No President could afford to be disengaged from congressional action on an omnibus measure. Indeed, enactment of such a measure might be possible only if the President and Congress agreed in advance on its terms. Lacking an agreement, the President might be compelled to veto the entire measure in order to disapprove provisions to which he objects.

Interactions. An omnibus process might be coupled with enhancement of the President's rescission authority or with a form of item veto. One variant would be for the major parts of a comprehensive measure to be deemed to have been enacted separately, so that the President could disapprove some parts without vetoing the whole legislation.

Outlay Controls

The federal government has an obligations-based budget system; the key points of decision and control pertain to the budget resources available for obligation. The President's budget and the congressional budget resolution estimate the amount of money to be spent during the fiscal year, but actual outlays can vary significantly from these estimates because of changes in economic conditions, spendout rates, and other factors.

The congressional budget process restricts what Congress may do to increase outlays. Section 311 of the Budget Act provides for a point of order against any measure that would cause outlays (or other spending) to exceed the level in the budget resolution. This point of order does not apply in the House (under what is known as the "Fazio exception") if the committee of jurisdiction is within its allocation of discretionary budget resources. Senate--but not House--rules provide for a point of order against a measure that would cause a committee's subdivision of outlays to be violated.

A number of proposals have been made to strengthen the control of outlays. Some would conform House rules to the Senate's; some would add new controls in both chambers.

-- Provide a point of order in the House against all legislation that would cause total outlays to be exceeded. This would repeal the "Fazio exception" and align House practice to the Senate's;
-- Provide point of order in House against any measure that would cause a committee to exceed its suballocation of outlays. This would make House practice the same as the Senate's;
-- Establish multiyear controls, so that a point of order would lie against a measure that would cause outlays for the second or third year to exceed the level set forth in the budget resolution;
-- Divide allocations to committees between defense and

non-defense spending and enforce outlay (and other) controls on each of these categories;

-- Strengthen "deficit neutral" rules by requiring (as in the Senate) a supermajority for approval of any measure that would cause the deficit to be increased and by establishing stricter accounting rules for computing the effects of legislative action on the deficit.

In addition to improving the enforcement of budget decisions, these proposals would affect the size of the deficit, the timeliness of congressional budget action, and the distribution of power in Congress.

Enforcement of congressional budget policy. The proposals would reinforce a trend in congressional budgeting: moving from point of order controls on budget aggregates to points of order on subcomponents of the budget. This trend is grounded on the belief that aggregate controls cannot be successfully maintained unless the parts of the budget are effectively controlled.

While stronger outlay controls would undoubtedly contribute to the implementation of congressional budget policies, the effects might be quite modest. One reason for this conclusion is that major deviations from stated outlay policies are almost always due to changes in economic conditions and other factors that have little or nothing to do with current budget action in Congress. Another reason is that heightened emphasis on outlays encourage manipulations which affect the timing or recording of transactions, but not their real volume. These manipulations

enable Congress to approve spending legislation that would not otherwise be in conformance with the outlay targets.

Other criteria. Timing manipulation affect deficit reduction, a key objective of outlay control. As long as these controls are maintained on a one-year-at-a-time basis, the manipulation of transactions will be likely. The Gramm-Rudman-Hollings (GRH) process is a case in point. Although the GRH law sees deficit reduction as a multiyear task, the process itself works through discrete annual adjustments. Each year's task is to reduce the estimated deficit to that (or the next) year's GRH target. To the extent that this can be accomplished by timing changes, the President and Congress can avoid having to undertake genuine cutbacks or revenue increases. The fact that doing so might worsen the deficit in the outyears does not have to be taken into account.

The margin for manipulation would be much narrower if the outlay controls were maintained on a multiyear basis, so that actions which lower this year's outlays (or deficit) by raising future levels would no longer be permitted.

Outlay controls are likely to complicate congressional budgeting. Committees would have to be attentive to how their actions affect outlays as well as budget resources. In some areas, such as defense, they would have to be concerned with the relationship between the mix of resources and outlay levels. The complications would be especially difficult for the Appropriations Committees which gave scant attention to outlays

until recent years. They viewed outlays as the responsibility of the spending agencies, not of Congress. Not only would these committees have to develop the skills and perspective to control outlays, they would have to fit appropriations into an additional set of constraints. The outlay problem has been one (not the only) reason for the slow progress of appropriation bills in recent years.

Outlay controls might redistribute budgetary power in Congress. The budget process would reach particular program and spending decisions to a greater extent than in the past. Depending on the types of outlay controls that were imposed, the budget committees might gain a more prominent role in regard to budget priorities (such as defense versus domestic spending), the program mix (for example, the amount spent on defense procurement and on operation and maintenance), and the rate of implementation.

Certain controls would affect presidential-congressional relations. With congressional budget controls centered on the aggregates, the White House believes that budget understandings negotiated with Congress can be breached in action on individual spending bills. Congress can alter budget priorities while staying with the budget's totals. If, however, controls were tightened over the budget's subcomponents, the President might have greater confidence that agreements on budget priorities would be adhered to by Congress and it might, therefore, be willing to enter into negotiations to reach such agreements.

Interactions. Outlay controls can be essential for operating under a constitutional balanced budget requirement. They also can be applied in tandem with the reconciliation process to enforce congressional budget policies.

Reconciliation Process

The reconciliation process has gone through a number of stages since it was established as part of the congressional budget process. Reconciliation was hardly used in the 1975-79 period; it was the means of enacting significant changes in revenue and spending laws in the 1980-84 years; it has achieved only modest deficit reduction in more recent years, but has become a vehicle for the enactment of much substantive legislation. Because this legislation is not germane to the purpose of reconciliation and is often enacted without much debate or opportunity for amendments,[15] proposals have been made to bar extraneous provisions in reconciliation bills. (The Senate has a temporary prohibition on extraneous provisions; the House does not.) Proposals have also been made to bar provisions that would increase spending and to enlarge the role of the Budget Committees in obtaining compliance with reconciliation instructions.

Enforcing congressional budget decisions and reducing the deficit

Reconciliation depends on cooperation by committees with antagonistic interests. The Budget Committees typically want more savings, the legislative committees want to save or expand more programs. Neither set of committees can dictate to the

other. When they work together to develop and enact savings, it is not simply because the rules require it but because they perceive advantage in cooperation. The interdependance of these committees makes reconciliation a changing process that produces different outcomes as the relative strength and interests of the participating committees change.

From the standpoint of enforcement and deficit reduction, the inclusion of extraneous matter can be justified only if it induces compliance with reconciliation instructions. Arguably, a process strictly limited to tax increases and spending cuts might yield less deficit reduction than would one that permitted recancitrant committees to add some "sweeteners" in the form of nongermane legislation or modest program expansions. This argument does not justify every insertion into reconciliation bills, however. Any spending increase should be relatively small and should be offset by additional cutbacks so that net savings equal the amount mandated by the reconciliation instructions. Moreover, extraneous legislation should be limited in scope, if the overriding function of the reconciliation bill is to remain a means of enforcing compliance with congressional budget policy. Some recent reconciliation bills had such meager deficit reduction as to call into question the efficacy of the process. These bills were enacted because committees saw an opportunity to bypass the regular legislature procedures, not because they reduced the deficit.

Because it is hard to draw a line between appropriate and

inappropriate use of reconciliation bills, some have argued that all extraneous matter should be excluded. But even if the House and Senate rules barred such matter, it is likely that reconciliation bills will continue to be used for more than tax increases and spending cutbacks.

Other criteria. The enactment of substantive legislation in reconciliation bills is part of a larger development--ther trend in Congress to enact a small number of omnibus measures containing much of the session's budgetary and/or legislative business. Omnibus measures put the President in a difficult position, often compelling him to sign matters which he would prefer to veto. While the President would gain by the exclusion of extraneous matter, part of his own legislative program might be impeded by closing off this means of enactment.

Any significant change in the reconciliation process would redistribute budgetary power in Congress. As it presently operates, reconciliation delicately divides power between the budget and legislative committees. The budget committees control financial decisions--the amount of revenue to be increased or spending to be cut--while the legislative committees make substantive policy--the program changes to be enacted. It is their control of substantive policy that gives legislative committees wide scope in placing extraneous matter in reconciliation bills. Loss of their capacity to do so would work to the disadvantage of legislative committees. Their only role would be to satisfy the demands of the Budget Committees as

approved in the budget resolution. This fellowship role might not be acceptable to some legislative committees.

Work on the reconciliation bill might be expedited by excluding extraneous matter. One recent bill was delayed for months by conflict over Superfund provisions that had been attached to the reconciliation bill.[16] But while delays of this sort might be ended, one should be wary of delay caused by lack of support for an austere deficit reduction bill that cuts programs and levies taxes and lacks any sweeteners.

Interactions. The status of the reconciliation process might be altered by establishment of an omnibus budget process or by conversion to a statutory budget resolution. Either of these changes might forge a tighter link of congressional budget policy and legislation implementing those policies.

III. Summary and Conclusions

Current reforms have the potential to lower the deficit, shift budgetary power between or within the legislative and executive branches, speed or slow work on the budget, and effect the enforcement of congressional policy. The results would not be as conspicuous as proponents have suggested, but they would make sufficient changes in the conduct of budgeting to warrant careful consideration before being implemented. This concluding chapter briefly comments on each of the criteria used in the report and on the interactions among various proposals. The impacts of the various reforms on each of the criteria are summarized in the table on the next page. The last part of the chapter reflects on the linkage of budgetary power and outcomes.

Size of the deficit. A constitutional balanced budget requirement is the only proposal that would have a pronounced impact on the deficit. But deficits, as measured by current accounting practices, are likely to persist under a balanced budget rule. Deficits might come in many forms: a separate capital budget that permits debt financing of investments, off budget transactions that remove certain expenditures from computation of the deficit, escape clauses which enable Congress to spend in excess of revenues in case of war or other extraordinary circumstances, or economic or political force majeure which compels deficits despite the constitutional prohibition.

Few of the other reforms would have a significant moderating

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IMPACT OF PROPOSED REFORMS ON SELECTED CRITERIA

Reforms	The size of the deficit	The budgetary powers of the President and Congress	The distribution of budgetary powers in Congress	The timely completion of Congressional Budget Action	The enforcement of congressional budget policies
Authorizations-Appropriations Process		S	P	S	
Balanced Budget Amendment	P	S			S
Biennial Budgeting	S	S		P	S
Capital Budget	P	S			
Congressional Budget Resolution		P	S	S	
Continuing Resolution		S		P	
Credit Budget	P				S
Debt Limit	S			P	
Impoundment Process	S	P			
Item Veto	S	P		S	
Omnibus Budget Legislation		S		S	P
Outlay Controls	S	S	S	S	P
Reconciliation Process	P	S	S	S	P

P -- Primary Impact.
S -- Secondary Impact.

effect on the deficit, though the item veto, tougher budget enforcement, and enhanced rescission authority might shrink it a bit. It is hard to envision more than a few billion dollars, a large sum indeed but only a tiny fraction of recent deficits, being trimmed from federal spending through the exercise of these new powers. Perhaps these techniques would enable the government to balance its books when the revenue-spending gap was small; it would not be of much avail when the gap was huge. In these circumstances, tax increases might be a more expedient route to budgetary balance than spending cuts.

The budgetary powers of the President and Congress. Many of the proposed reforms would strengthen the President's role in budgeting; none (with the possible exception of an omnibus budget process) would significantly weaken it. The item veto and enhanced rescission authority would give the President powers he does not presently possess; restrictions on continuing resolutions and reconciliation bills would take away some advantages now exploited by Congress.

Fighting over power is simply another means of fighting over money, but with higher stakes. The recent budgetary relationship of the President and Congress has been marked by intense conflict over fiscal policy and spending priorities. The checks and balances available to the contending branches have led to a protracted stalemate in which neither side has been able to fully impose its budget preferences on the other. In seeking to augment his budget powers, the President wants to obtain through

procedural reforms that which has been denied him through budget decisions. One should not expect Congress to surrender the checks that have empowered it to block the President's demands. The impasse over budget policy would extend to budget procedures as well.

The distribution of budgetary power in Congress. Committee realignment, changes in the appropriations and budget processes, outlay controls, and other proposed reforms would redistribute budgetary power in Congress. Some would transfer power to the Budget Committees, others would bolster the role of the authorizing or Appropriations Committees. There is no single pattern to the proposals because they represent conflict over jurisdiction more than they do over policy.

Jurisdictional battles have perturbed the congressional budget process from the outset. With four sets of committees vying for control over particular aspects of revenue or spending policy, budgeting in Congress has sometimes resembled a series of truces interrupted by numerous flareups. The notion that budgeting would be a less fractious process if fewer committees shared in the power has a certain appeal. But fighting over the budget predates the establishment of budget committees and is likely to persist as long as Congress divides, as it must, power over money.

Completion of budget work in Congress. The realignment of committee jurisdictions is also seen as a means of facilitating the timely completion of budget work. Biennial budgeting,

automatic continuing resolutions, and a bar against extraneous matter in reconciliation bills are also promoted as means of expediting budget action in Congress.

Some of these reforms would make a difference if Congress stuck to them. A biennial budget process would decongest the legislative calendar if Congress were to desist from making authorizations and appropriations every year. But this reform would have little positive effect if Congress put off this year's tough votes until next year, or if it reverted to frequent midyear adjustments.

The prospect of this is heightened by recognition that delay in Congress is not simply the result of having to do too many things within an inadequate amount of time, but also because of conflict over money. If budgetary strife were to persist, the reforms intended to get Congress to operate on schedule might have the reverse effect of encouraging further delay.

Enforcement of Congressional budget decisions. Several reforms address the enforcement problem inherent in today's fragmented budgetary environment. These include outlay controls, a statutory budget resolution, and an omnibus budget process. Here too, however, conflict can thwart the intended benefits.

To assess whether reform would promote compliance, one must identify the reasons why Congress sometimes fails to follow through in its adopted budget policies. One problem is that the complex procedures get in the way of compliance. For example, Congress makes policy in one type of measure (a budget

resolution), but enforces it in another (an appropriation or reconciliation bill, for example). Procedural changes might alleviate this type of problem. Another reason, however, for inadequate enforcement is that the budget policy itself is in dispute. Rather than being the medium of resolving disputes, the budget resolution is only one phase of the battle. Having adopted the budget resolution, Congress still keeps some options open for later decisions. If Congress tried to ease conflict-driven enforcement problems by bonding both the formulation and implementation of budget policies in a single measure, it might find itself incapable of making the policies. Rather than strengthening the congressional budget process, tighter enforcement might endanger its continuation.

Interactions. There are remarkably few significant interactions among the reforms. Most can be adopted in isolation from one another, and substitutions are more matters of convenience than of necessity. Congress might couple a capital budget to a balanced budget requirement, but it does not have to do so. It could adopt one without the other. It might take action to discourage both omnibus continuing resolutions and the use of reconciliation bills as vehicles for extraneous legislation, but it could proceed on either reform alone.

The same applies to proposals that might be seen as substitutive. Congress might give the President both an item veto and enhanced rescission power, or it might give him neither. Enhanced rescission power is a substitute for an item veto only

because Congress is not likely to grant this much additional power to the President.

The absence of strong interactions is due to a characteristic of current reforms discussed in chapter 1. The proposals lack a unifying theme; they are a shopping list of ideas rather than integrated plan of action.

Budgetary Power and Budgetary Outcomes

While contemporary reform lacks a unifying theme, one idea runs like a thread through the roster of proposed changes: changes in budget outcomes are achieved through change in the distribution of budget power. Budget reform is as much--or more--a matter of redistributing power as of changing financial outcomes. Most of the proposals reviewed in this report would alter the budgetary relationship of the President and Congress or the roles of legislative participants; some would redistribute power both within and between the branches.

Redistribution of power is inherent in budget reform. Changing the rules and procedures also changes who has the final say, who controls public funds, and how disputes are resolved. The current reforms are not the first ones to redistribute power under the guise of improving the budget process. The Budget and Accounting Act of 1921 augmented the President's power by requiring agencies to seek money through him and barring them to make their requests directly to Congress. The Congressional Budget Act of 1974 added the House and Senate Budget Committees as a new power center and as potential controllers of authorizing

and appropriating committees. In these and in lesser reforms, change was promoted in terms of the substantive good that would ensue. Reformers rarely talk openly about the power that would change hands; they prefer instead to speak of the spending or deficits that would be curtailed.

The linkage of redistribution of power and budgetary outcomes is often assumed but difficult to demonstrate. The 1921 Act was premised on the expectation that by exercising stronger budgetary control the President would be able to counter agency spending pressures more effectively than Congress had, and that federal expenditures would therefore be reduced. The 1974 Act was spurred by the conviction that new budget committees with purview of total the revenue and spending would be more successful in balancing the budget than the separate tax and appropriations committees had been. In both laws, redistribution was heralded as the means to a coveted end.

Today's reforms evince a similar theme: for spending and deficits to be controlled, the procedures must be changed. But although proponents typically justify their schemes in terms of the substantive good that will result, they are mindful of who would lose from the change.

Congress is very much on the defensive these days about its institutional capacity to budget. More than anything else, today's reforms would bolster the President's budget role. Current reforms more closely echo the objectives of the 1920s than of the 1970s. Indeed, taken as a whole, the verdict of

contemporary budget reform is that the congressional process established in 1974 has failed and it is therefore the President's turn to try to restore fiscal responsibility. This presidential tilt is due in part to the breakdown of congressional budget procedures. At least presidential bias is also spurred by President Reagan's often-repeated charge that Congress is a spendthrift body that cannot be entrusted with the full power of the purse. Congress has to be reined in, the President insists, not to aggrandize his own position, but to prevent the legislative branch from doing budgetary damage.

An assessment of the claim that the President is a more prudent guardian of the treasury would benefit from a review of the 1921 reforms. The expectation that presidential budget power would be used to restrain spending was amply fulfilled in the 1920s, a decade during which federal taxes, outlays, and the public debt were all reduced. But the outcome was quite different in the next decade, a period during which presidential budget power was vigorously deployed to expand federal spending. Led by a skilled President who saw the expansion of the governments' role as vital to alleviating economic and social distress, federal spending and deficits soared in the 1930s. The presidential powers which had been used to restrain expenditures in one decade were mobilized to pump them up in the next.

This bit of history calls into question the assumed linkage of political redistribution and budgetary outcomes. So, too, does experience under the congressional budget process. It was

expected that the budget committees would guard against spending pressures in Congress. But in the past dozen years, there have been times when the budget committees have accommodated those pressures and times when they have resisted spending demands. In some years, the budget process has been deployed for retrenchment; in others it has contributed to expansion.

Redistribution of budgetary power produced uncertain and shifting substantive results because those who gain power use it to advance their objectives. As these objectives change, so too do the outcomes. Budgeting is a tool that serves the policy objectives of those who wield it.

NOTES

1. See James Saturno and Thomas Youth, Budget Process Reform Legislation in the 100th Congress: Selected Listing, Congressional Research Service Report 87-713 GOV (June 15, 1987, up-dated Aug. 26, 1987).

2. The President proposed an "Economic Bill of Rights" in a speech on July 3, 1987. The text of the speech is reprinted in Congressional Quarterly Weekly Report (July 11, 1987) pp. 1531-1533.

3. The legislative veto of proposed deferrals (and other forms of legislative veto) has been deemed unconstitutional pursuant to a 1983 decision of the U.S. Supreme Court in INS v. Chadha. A Federal District Court has ruled that, except for powers conferred by the Antideficiency Act, the President no longer has the power to defer funds.

4. This practice is discussed in Committee on the Budget, U.S. House of Representatives, The Whole and the Parts: Piecemeal and Integrated Approaches to Congressional Budgeting, February 1987.

5. This historical development is described in Allen Schick, Legislation, Appropriations, and Budgets: The Development of Spending Decision-Making in Congress, Congressional Research Service Report 84-106 GOV, May 1984.

6. See House Committee on Government Operations, Reform of the Federal Budget Process: An Analysis of Major Proposals, Committee Print, June 1987.

7. See The Budget of the United States Government Fiscal Year 1988, Special Analysis D for a specification of the various types of investment outlays and the amount spent on each type.

8. These negotiations are discussed in Allen Schick, Crisis in the Budget Process: Exercising Political Choice, American Enterprise Institute, 1984.

9. Republican and Democratic voting on budget resolutions is reported in Norman J. Ornstein and others, Vital Statistics on Congress: 1984-85 Edition, American Enterprise Institute, 1984, Tables 7-1 and 7-2.

10. The inclusion of substantive provisions has been facilitated by long-standing precedents in the House that continuing resolutions are not general appropriation bills and, hence, not subject to prohibitions in Rule XXI.

11. The legal status of policy deferrals is in litigation. The U.S. Court of Appeals in City of New Haven v. United States ruled that inasmuch as Congress can no longer disapprove deferrals, the authority of the President to defer funds under the Impoundment Control Act no longer operates. Under this ruling, the President may defer funds only for the "routine" reasons authorized in the Antideficiency Act or other laws.

12. See Norman Ornstein and Others, op. cit. Table 7-11.

13. Data on the composition of federal outlays are taken from Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1988-1992, January 1987, Table F-5, p. 159.

14. There may be circumstances in which a President would impound defense funds. In fact, some major impoundment conflicts in the 1950s and 1960s revolved around the President's refusal to spend funds for certain weapon systems. In addition, President Carter impounded defense funds in the 1970s. While some of these impoundments were controversial, none involved substantial amounts of money.

15. The House usually considers reconciliation bills under a rule which permits only designated floor amendments. Section 310(e) of the Congressional Budget Act limits consideration of a reconciliation bill, including any floor amendments, to not more than 20 hours.

16. This measure, the Consolidated Omnibus Budget Reconciliation Act of 1985 (P.L. 99-272) was enacted in 1986.

BIENNIAL BUDGETING

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The Congress of the United States
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(71)

PREFACE

Should the Congress prepare a budget every two years rather than every year, as it does now? This proposed reform, known as biennial budgeting, has received increased attention in recent years. The Congressional Budget Office (CBO) prepared this paper in response to numerous inquiries about the subject.

The paper is divided into four chapters. The first provides background information on the annual character of the current process and a history of proposals to convert to multiyear budgeting. The second chapter describes three bills that reflect different approaches to biennial budgeting. The experiences of the states and of other countries with biennial budgeting are related in the third chapter. The concluding chapter analyzes the potential effects of converting from annual to biennial budgeting.

The paper was prepared by Roy T. Meyers of the Budget Process Unit under the supervision of James L. Blum and Marvin Phaup. The author thanks Joel Aberbach of the University of California at Los Angeles and the University of Michigan for permitting advance publication of data from a forthcoming book on Congressional oversight, and Matthew Salomon of CBO for simulating uncertainties in the gross national product forecast. Useful suggestions were provided by Wayne Glass, Glen Goodnow, Robert Hartman, David Horowitz, Jack Mayer, Nell Payne, Jim Saturno, Robin Seiler, Gerry Siegel, Paul Van de Water, and Barbara Yondorf. Sherry Snyder edited the manuscript, and Nancy H. Brooks prepared the manuscript for publication.

SUMMARY

Biennial budgeting is the practice of preparing and adopting budgets for two-year periods. Nine bills to convert to biennial budgeting have been introduced in the 100th Congress.

The central rationale for biennial budgeting is that it would improve the efficiency of the Congressional budget process. Frustration with the current process is high: it is time-consuming, target dates are often missed, and repetitive decisions are made. The solution to these problems, according to proponents of biennial budgeting, is to prepare one budget instead of two over a two-year period. Having fewer budgets could reduce the delay and repetition that plague the current budget process, and could free time for other activities.

Two biennial budgeting approaches have been proposed--the "stretch" and "split-sessions" models. The stretch model would have the Congress prepare a budget for the biennium (the two-year fiscal period) over the two years of a Congress. The split-sessions model would have the Congress prepare a biennial budget during one year and conduct nonbudgetary activities in the other. The bills that take this approach begin the biennium on October 1 of either the odd year (the first year of a Congress) or the even year (the second year of a Congress). The stretch model would begin the biennium on October 1 of the even year.

Few statements can be made with much certainty about the effects of a conversion to biennial budgeting, except that this would be a radical change from the current process. Despite the permanence of much government spending, the *process* of formulating, enacting, and executing budgets is characteristically annual.

One way that biennial budgeting would depart significantly from current practices would be its restriction of certain activities to specified periods. Under the split-sessions model. the Congress is expected to forgo revising the budget during the nonbudgetary year. The pressure to revise the budget would often be strong, however, and no rules of the Congress exist that would prevent it from doing so. With split sessions, moreover, the specialized roles of the budget, appropriations, and oversight committees might leave these committees with significant periods of inactivity.

The stretch model assumes that having a longer period for making budgetary decisions will make missing target dates less likely. The accuracy of this assumption is questionable. Delay is probably inherent to budgeting because of the important decisions that are made in this comprehensive process. In addition, differences over budgetary goals between the Congress and the President, and between the House and the Senate, have been important causes of missed target dates. Biennial budgeting is likely to make it even more difficult to reach compromises over major policy differences, because the stakes will be higher with a two-year budget than with a one-year budget.

Expanding the horizon of the budget by a year will undoubtedly increase errors in budget projections, but the extent of this increase is uncertain. Deficit projection errors caused by economic forecast errors would likely be slightly larger for a biennial than for an annual budget. Deficit projection errors from inaccuracies in technical assumptions, while impossible to predict reliably, could be smaller for a biennial than for an annual budget.

Given that the Congress copes with a substantial amount of uncertainty now, the increase attributable to biennial budgeting might be bearable. In addition, the Congress could compensate for increased uncertainty by changing some of its current goals and procedures. It could accept the unpredictability of the economy, refraining from attempts to "fine-tune" spending and taxing in order to hit specific deficit or economic growth targets. When funding individual programs, it could adopt procedures that would reduce the demand for supplemental appropriations and rescissions.

The experiences of other governments suggest, however, that added uncertainty may at times be quite costly. Most states are subject to effective limits on spending and borrowing, and complying with these limits has become more difficult with the growing uncertainty of revenue streams. This problem is one reason why the states have moved away from biennial budgeting--44 states used biennial budgeting in 1940, but only 19 do now. Many of the remaining biennial states have made major budget revisions in the off-years because of impending deficits. Biennial budgeting is infrequently used in other countries. No developed democracies currently practice biennial budgeting, and developing countries are encouraged to budget annually by multinational creditors.

Finally, biennial budgeting could limit cooperation between the executive and legislative branches by reducing their frequency of interaction. Cooperation might not decrease significantly were the Congress to use fully the time allocated for oversight activities. This would be consistent with the increasing use of oversight in recent years. Using oversight in place of appropriations might also improve the ability of the Congress to understand problems and monitor the Executive Branch.

This course would reduce the amount of influence that the Congress could exercise annually, however. The "must-pass" character of appropriations requires the Executive Branch to negotiate in good faith and to conform to previously enacted law. Therefore, forgoing annual appropriations would mean that the Congress would periodically do without its most coercive tool. In the absence of annual appropriation controls, the Congress might respond by writing legislation more restrictively for agencies that it did not trust. By eliminating agencies' flexibility, these "micromanagement" provisions could force them to act inefficiently. Yet, since it would often be difficult for the Congress to anticipate future conditions, agencies would probably be left with greater discretion than they currently enjoy.

In sum, this analysis suggests that biennial budgeting might not live up to expectations unless the Congress substantially changes its goals and behavior. It would have to accept increased uncertainty about budget outcomes, a reduced ability to be responsive to immediate concerns, and less influence from use of the appropriation process. If these changes were accepted, the Congress could reduce the number of repetitive votes on budget issues, and spend more time on policy planning and oversight. Biennial budgeting could also allow agencies and grantees to spend money more efficiently. But it would not eliminate the delays that come from negotiating important budget decisions.

If the Congress does not wish to change as radically as biennial budgeting would require, it could implement biennial budgeting selectively--for technically predictable and politically stable programs, for example. Although some flexibility might be lost by these actions, the Congress could compensate by subjecting currently mandatory programs to more frequent reviews.

CHAPTER I. BACKGROUND

In this paper, budgeting is defined as the consideration of budget resolutions, appropriation bills, and the portions of authorization bills that authorize or limit spending. Annual budgeting has been the general practice in the federal government. Interest in biennial budgeting has increased, however, and a number of multiyear budgeting reforms have been considered or adopted in recent years.

Annual Appropriations and Authorizations

Appropriations have been made annually since the 1st Congress, and with the adoption of the Budget and Accounting Act in 1921, the President was required to present appropriation requests at the beginning of each calendar year. The Congress routinely considers at least 14 appropriation bills (13 regular and 1 supplemental) each year.

The schedule for considering appropriation bills should not be confused with the time periods for which appropriations are made available. In the early years of the republic, most appropriations were available to an agency for only one year. The Congress now makes most appropriations available for periods longer than a year. In fiscal year 1985, 53 percent of appropriations were permanent in law. The remaining 47 percent were made through the annual appropriation process. Of these annual appropriations (excluding discretionary appropriations for the legislative and judicial branches and the Executive Office of the President), only about one-half (or one-quarter of all appropriations) were made available for only the upcoming budget year. The remaining were multiyear, no-year, or advance appropriations. 1/ Thus, while budgeting decisions are made annually, the availability of budgeted funds covers various time periods.

Annual authorization of appropriations is currently a regular practice, but this was not the case three decades ago. Before 1959, only military construction, foreign aid, and the Atomic Energy Commission were authorized annually. With the passage of annual authorizations for the National Aeronautics and Space Administration and military procurement in 1959, the Congress began to rely on annual autho-

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1. Multiyear appropriations are available for spending over several specified years; no-year appropriations are available until spent; and advance appropriations are available beginning in the fiscal year succeeding the year for which the appropriation bill is passed. Data compiled from OMB tapes by Allen Schick, *Crisis in the Budget Process* (Washington, D.C.: American Enterprise Institute, 1986), pp. 47-49.

rizations to increase its control of the Executive Branch. Annual authorizations also served the authorizing committees by enabling them to participate in budgetary decisions as frequently as the appropriations committees. By the 1970s, authorizations for the majority of discretionary appropriations were being considered annually, including authorizations for all defense and intelligence agencies, the Peace Corps, the Coast Guard, the National Science Foundation, the Department of Energy, the Department of Justice, and research and development for the Environmental Protection Agency. Not all of the annual authorizations have been enacted in each year, however. In 1987, for example, only a fifth of the nondefense discretionary appropriations that are frequently authorized annually were in fact authorized. 2/ And like multiyear appropriations in annual appropriation bills, some authorizations enacted in annual authorization bills lasted for more than one year. Authorizations for specific military construction projects, for example, were routinely for two years.

The Congressional Budget Act of 1974

The schedule for considering authorizations and appropriations was of major interest during deliberations over the Congressional Budget Act. Two problems were thought to be most serious--the Congress routinely failed to pass appropriations before the beginning of the fiscal year, and the Congress often failed to pass authorizations until the beginning of the fiscal year was near, allowing little time for the appropriation process. The Congressional Budget Act included several provisions that were intended to reduce these delays. First, authorizations were scheduled for early consideration. Section 607 asked that the President submit requests for reauthorizations by May 15 of the year *preceding* the year in which the authorization would begin. 3/ This section also asked the President to submit multiyear authorization requests for new programs. Section 402 established a point of order against considering authorizations that had not been reported by May 15. This provision was intended to speed up consideration of authorizations. The same May 15 date was used as a target for completion of the first budget resolution, and Section 303 established a point of order against considering any bill providing new budget authority before the first budget

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2. CBO data show that although 15.2 percent of nondefense discretionary appropriations were subject to annual authorization, only 3.2 percent were authorized in 1987. Only 10 annual authorization bills were enacted out of the 19 bills that are routinely considered on an annual basis.

3. This provision has never been successfully carried out.

resolution was adopted. Action on appropriations was intended to be completed by seven days after Labor Day, before the beginning of the fiscal year, which was changed to October 1.

Other multiyear provisions in the Budget Act required the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) to make five-year budget projections, and CBO to provide five-year cost estimates and scorekeeping reports for authorizing legislation and bills providing new budget authority, respectively. In subsequent years, the budget resolutions themselves were expanded to include multiyear projections. The first resolution for fiscal year 1980 included two years of out-year projections for the budgetary aggregates, though separate projections were made for the Senate and the House. By the first resolution for fiscal year 1982, the same projections were made for spending by budget function in both the House and the Senate.

The broader approach of biennial budgeting received little attention during the formulation of the act. Senator Bellmon proposed that each Congress be divided into a budgetary session and a legislative (nonbudgetary) session. Senator Nunn and Congressman Conyers separately proposed that appropriations and authorizations be considered on a staggered basis, with one-half of each being enacted each year. Only one proposal was put into the form of draft legislation. Senators Mondale and Javits proposed biennial budgeting in an amendment (# 601) to S. 1541, the bill being considered by the Senate Government Operations Committee, but the amendment was not accepted by the committee.

Increased Interest in Biennial Budgeting

The first biennial budgeting bill was introduced by Congressman Panetta in 1977. 4/ This bill was reintroduced in 1979, and Senator Bumpers introduced another biennial budgeting bill in the same year. The bills were reintroduced in 1981, and other biennial bills were introduced in 1981 and 1982 by Senators Ford, Quayle, Roth, and Coch-

4. A list of biennial budgeting bills from 1977 to the present is contained in the appendix of Michael D. Margeson and James Saturno, "Congressional Approaches to Biennial Budgeting" (Congressional Research Service, July 27, 1987), pp. 19-21.

ran. Hearings were held in these years by the Senate Governmental Affairs Committee and the House and Senate Budget Committees. 5/

Biennial budgeting was also considered from 1982 to 1984 by the Task Force on the Budget Process, chaired by Congressman Beilenson of the House Rules Committee. The task force considered four alternative proposals for reform of the budget process:

- The *single binding resolution* approach, which would have codified the procedural changes made to the budget process during its first decade, such as reconciliation after the first budget resolution.

- The *target resolution* approach, which was similar to the original process established by the Congressional Budget Act.

- The *omnibus budget bill* approach, which proposed that all appropriation bills, revenue bills, and reconciliation of direct spending be considered in one bill.

- The *biennial budgeting* approach.

The task force recommended the single binding resolution approach. It commented as follows on biennial budgeting:

> **Biennial budgeting.** The task force considered the possibility of stretching over a two-year period the entire process--budget resolution, appropriations bills, and authorizations--in order to lighten the Congress' annual workload and provide additional time for other important activities, such as oversight. There were two leading arguments against a two-year system: one was that it did not seem feasible to adopt a budget resolution for a two-year period, given the rapidness with which political and economic circumstance change. The other was concern about having one Congress make decisions that could be binding through a subsequent Congress. Furthermore, several variations of biennial bud-

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5. See Senate Committee on Governmental Affairs, "Review of the Congressional Budget and Impoundment Control Act of 1974" (October 6 and 29, 1981) and "Budget Reform Act of 1982" (August 19, 1982); House Budget Committee, "Budget Process Review" (September 14, 1982); and Senate Budget Committee, "Proposed Improvements in the Congressional Budget Act of 1974" (September 14, 16, 21, and 23, 1982).

> geting have been proposed, and there is no consensus on which version would be the most practicable.
>
> The task force does endorse providing authorizations for periods of two or more years, as noted above. The task force also encourages the Government [*sic:* should be "General"] Accounting Office and the Office of Management and Budget to study the feasibility of placing some annually financed programs on two-year funding. Such studies would give Congress a better basis for determining whether it should move to a biennial budget system in the future. 6/

The task force also recommended that committees report more multi-year and advance authorizations, and strongly favored dropping the May 15 reporting deadline for authorizations, believing it had proved ineffective. Furthermore, it wanted to allow consideration of appropriations after May 15 even if the budget resolution had not been adopted.

These and other recommendations made by the task force were accepted by the Rules Committee, and many of them were included in the Balanced Budget and Emergency Deficit Control Act of 1985 (popularly known as Gramm-Rudman-Hollings). In particular, the timetable for considering the budget was accelerated. The President's budget submission was moved up to January 3, and the views and estimates reports from committees to February 25. The budget resolution was to be enacted by April 15, reconciliation by June 15, and appropriations by June 30 in the House. 7/

In the Senate, the 1984 Temporary Select Committee to Study the Senate Committee System, chaired by Senator Quayle (a cosponsor of Senator Ford's bill), recommended that a select committee be established to study the feasibility of biennial budgeting. In 1985, Senator Quayle proposed an amendment to the fiscal year 1986 legislative branch appropriation bill to establish such a committee, but withdrew the amendment after Senator Domenici offered to hold joint Budget Committee and Governmental Affairs hearings on budget process

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6. Task Force on the Budget Process of the House Committee on Rules, "Recommendations to Improve the Congressional Budget Process" (May 1984), p. 24.

7. See House Committee on Rules, "Congressional Budget Act Amendments of 1984," Report 98-1152 (October 1984); and Robert A. Keith, "Changes in the Congressional Budget Process Made by the 1985 Balanced Budget Act (P.L. 99-177)" (Congressional Research Service, May 23, 1986).

reform. 8/ With the passage of the Balanced Budget Act, however, attention shifted away from biennial budgeting and the hearings were never held.

The Experiment of Budgeting Biennially for Defense

The most significant move toward biennial budgeting has been the adoption in 1985 of the Nunn-McCurdy amendment to the fiscal year 1986 defense authorization bill (Public Law 99-145). This amendment is reprinted below.

> SEC. 1405. TWO-YEAR BUDGET CYCLE FOR THE DEPARTMENT OF DEFENSE
>
> (a) FINDINGS. The Congress finds that the programs and activities of the Department of Defense could be more effectively and efficiently planned and managed if funds for the Department were provided on a two-year cycle rather than annually.
>
> (b) REQUIREMENT FOR TWO-YEAR BUDGET PROPOSAL. The President shall include in the budget submitted to the Congress pursuant to section 1105 of title 31, United States Code, for fiscal year 1988 a single proposed budget for the Department of Defense and related agencies for fiscal years 1988 and 1989. Thereafter, the President shall submit a proposed two-year budget for the Department of Defense and related agencies every other year.
>
> (c) REPORT. Not later than April 1, 1986, the Secretary of Defense shall submit to the Committees on Armed Services and on Appropriations of the Senate and House of Representatives a report containing the Secretary's views on the following:
>
> (1) The advantages and disadvantages of operating the Department of Defense and related agencies on a two-year budget cycle.
>
> (2) The Secretary's plans for converting to a two-year budget cycle.

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8. See *Congressional Record*, July 31, 1985, S10557-10562.

> (3) A description of any impediments (statutory or otherwise) to converting the operations of the Department of Defense and related agencies to a two-year budget cycle beginning with fiscal year 1988.

The Nunn-McCurdy amendment for a biennial budget was at first wholeheartedly embraced by the Department of Defense. Biennial budgeting for defense received additional endorsements from the President's Blue Ribbon Commission on Defense Management (the Packard Commission), the Center for Strategic and International Studies, and the Heritage Foundation. The President's fiscal year 1988 budget included separate appropriation requests for fiscal years 1988 and 1989 for accounts in the national defense function.

Biennial budgeting for defense quickly declined, however, as several of its initial proponents backed away from rapid implementation. In its April 1, 1986, report to the Congress that was mandated by Public Law 99-145, the Department of Defense stated:

> It is important to note that, although many have expressed support for the general concept of biennial budgeting, the concept has not been adequately defined. If not done carefully, it is conceivable that the transition of this idea to implementation may yield a process that would be unsatisfactory to everyone. This is particularly true in view of the current Gramm-Rudman-Hollings legislation that injects an element of uncertainty in the budget process, be it for one or two years' duration. The benefits that may be envisioned through biennial budgeting are perhaps obviated by the threat of Gramm-Rudman-Hollings imposed reductions.

In the Congress, Senator Nunn wrote the Senate Budget Committee on February 24, 1987, to explain that:

> The [Armed Services] Committee is recommending a National Defense spending level only for fiscal year 1988 because the President's FY1988 Budget fails to meet the Gramm-Rudman deficit targets after FY1988. The Defense Department submitted a credible two-year budget for FY1988 and FY1989 as part of its FY1988-92 Five Year Defense Plan. Our Committee strongly supports the concept of shifting to a two-year budget. Unfortunately, the President has not told Congress how he plans to pay for his proposed level of Defense spending after FY1988 within the Gramm-Rudman deficit targets, making our job of recom-

mending and adopting a two-year Defense budget extremely difficult.

The Senate passed a bill that authorized about 70 percent of the defense budget for two years. The House passed an annual authorization bill, however, leading the conference of the two committees to agree on an authorization bill that contained some authorizations for fiscal year 1989, but which authorized most programs for only fiscal year 1988. An annual appropriation bill for the Department was included in the continuing resolution.

Through most of 1987, the Department of Defense did not follow its regular schedule for preparing the budget request; instead, it planned to make an "implementation review" of the two-year request in order to prepare budget amendment, supplemental, and rescission requests for fiscal year 1989. However, shortly after the summit agreement was reached for spending plans for 1988 and 1989, Secretary of Defense Carlucci ordered the department to reduce its budget request for fiscal year 1989 by $33 billion.

The Current Situation

Dissatisfaction with the current process of budgeting has continued, and biennial budgeting is still being discussed as a possible solution. 9/ Many Members of Congress have been pressed by the heavy work load that results from the overlapping actions taken during the annual appropriation and authorization processes. They have been embarrassed that the Congress has missed many budget process deadlines, and disappointed with the reliance in 1986 on an omnibus continuing resolution to provide appropriations for fiscal year 1987. 10/ An additional impetus for the revival of interest in biennial budgeting was the Balanced Budget Act's ceiling on the budget year deficit, which gave an incentive to shift outlays from the budget year to the current or future years. Some Members believe that biennial budgeting, with its

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9. In a recent survey by the Center for Responsive Politics, 86 percent of a sample of 113 House Members and Senators supported biennial appropriations. See *Congress Speaks: A Survey of the 100th Congress* (Washington, D.C.: 1988), p. 34; see also Jonathan Rauch, "Biennial Budgeting Taking Root," *National Journal*, vol. 18 (September 27, 1986), pp. 2318-2319; and Alice M. Rivlin, "Taming the Economic Policy Monster," *New York Times*, January 18, 1987, p. F2.

10. Continuing resolutions provide funding for agencies that have not received appropriations in regular appropriation bills. Traditionally enacted for short periods after the beginning of the fiscal year for one or several agencies, continuing resolutions have been enacted in recent years for many agencies and for the balance of the fiscal year.

extension of the budget period to two years, would reduce or limit opportunities for such artificial savings.

The Administration took a small step toward biennial budgeting in the fiscal year 1988 budget by including planning estimates for fiscal year 1989 for nondefense accounts. In testimony before the House Government Operations Committee, OMB Director Miller stated that he would like to expand biennial budget requests to the whole budget. President Reagan has supported biennial budgeting in addresses on budget reform, but the Administration has not proposed or endorsed relevant legislation.

The Senate discussed biennial budgeting during consideration of the fiscal year 1988 budget resolution. Senator Roth proposed a sense of the Congress resolution that "the Congress should enact this year a biennial budget and appropriations process." The resolution was tabled by a vote of 53 to 45. 11/ This was followed by inclusion of a biennial budgeting provision in the Balanced Budget Reaffirmation Act (Public Law 100-119). Section 201 stated:

> It is the sense of the Congress that the Congress should undertake an experiment with multiyear authorizations and 2-year appropriations for selected agencies and accounts. An evaluation of the efficacy and desirability of such experiment should be conducted at the end of the 2-year period. The appropriate committees are directed to develop a plan in consultation with the leadership of the House and Senate to implement this experiment. 12/

Senator Roth has introduced a bill reflecting this approach, which would convert the limitation on the administrative expenses of the Social Security Administration to a two-year limitation. 13/

The summit negotiations between the Congress and the President considered and rejected the adoption of biennial budgeting. However, the agreement reached in November set separate targets for spending for domestic, international, and defense categories for fiscal years 1988 and 1989. The agreement also specified that the President's budget and the budget resolution for fiscal year 1989 should be consistent with

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11. *Congressional Record*, May 6, 1987, S6010-6013.

12. See Edward Davis and Robert Keith, "Debt-Limit Increase and 1985 Balanced Budget Act Reaffirmation: Summary of Public Law 100-119 (H.J. Res. 324)" (Congressional Research Service, October 29, 1987).

13. S.1563, described in the *Congressional Record*, July 29, 1987, S10861-10862.

these targets, and pledged that supplementals will not be initiated "except in the case of dire emergency." Section 8001 of the Budget Reconciliation Act of 1987 (Public Law 100-203) established budget authority and outlay targets for defense and nondefense discretionary spending, and created enforcement procedures for these targets. Section 10621(b)(3) of the act stated that it was the sense of the Congress that it should undertake "an experimental multiyear authorization and 2-year appropriation for the Internal Revenue Service." This provision was intended for the process of funding the IRS for fiscal years 1989 and 1990.

CHAPTER II. MAJOR BIENNIAL BUDGET PROPOSALS OF THE 100TH CONGRESS

Three approaches to biennial budgeting have been proposed in the current Congress. Major bills that represent these approaches are: S. 416, cosponsored by Senators Roth and Domenici; S. 286, sponsored by Senator Ford; and H.R. 22, cosponsored by Congressmen Panetta and Regula. 1/ This chapter compares the bills' major features. Table 1 compares the target dates established by the three bills.

Three other bills contain, among other provisions, language identical to that in H.R. 22: H.R. 33, sponsored by Congressman Daub; H.R. 777, sponsored by Representative Lloyd; and H.R. 805, sponsored by Congressman Penny. Another bill, H.R. 1558, cosponsored by Congressmen Hutto and Lott, is similar in intent to H.R. 22. S. 1362, cosponsored by Senators Kassebaum and Inouye, includes a biennial budget proposal that is similar to S. 416. Finally, S. 832, sponsored by Senator Domenici, is an omnibus budget reform bill that incorporates the text of S. 416.

S. 416

S. 416 bears the closest resemblance to the existing budget process. Budgeting would take place in the first nine months of the first session (odd year) of a Congress, and the biennium would begin on October 1. The bill would delay submission of the President's budget to January 15 and return to the original Congressional Budget Act's dates for the views and estimates reports (March 15) and for reporting and passing the budget resolution (April 15 and May 15, respectively). Appropriation action would be completed in the House by the end of June, and all appropriation bills and the reconciliation bill would be enacted by September 30. The second session of the Congress would be devoted primarily to considering authorizations for the next biennium, though the President would be required to submit a revised budget for the biennium on January 15 of the even year (three and a half months after the beginning of the biennium). If S. 416 were passed, it would take

1.. Introductory statements in support of these bills can be found in the *Congressional Record*, January 6, 1987, H23-26 for H.R. 22; January 12, 1987, S601-609 for S. 286; and January 29, 1987, S1321-1333 for S. 416.

TABLE 1. TARGET DATES IN BIENNIAL BUDGETING BILLS

Date	S. 416	S.286	H.R. 22
11/10		Current services	
	Congress Begins First Session--Odd Year		
1/3			Current services
1/15	President's biennial budget;	President's biennial budget	President's biennial budget; oversight begins
2/15	CBO report		
3/15	Views and estimates		
4/15	Budget resolution reported	CBO report	
5/15	Budget resolution completed	Views and estimates	
6/1	Appropriation bills reported in House		
6/15	Appropriation bills completed in House	Budget resolution reported	
6/30	Appropriation bills reported in Senate		Committees complete oversight reports
7/1		Committees report authorizations of new budget authority	Committees begin legislative work
9/30	Appropriations and reconciliation finished		
10/1	Biennium begins		
10/31			Views and estimates
11/10			CBO report
11/30			Budget resolution reported

(continued)

TABLE 1. (Continued)

Date	S. 416	S.286	H.R. 22
12/1		Congress finishes authorizations of new budget authority	
12/31			Committees report authorizations of new budget authority
	Congress Begins Second Session--Even Year		
1/3			Current services
1/15	President's revised budget for biennium	President's revised budget for biennium	President's revised budget for biennium
3/1			Congress finishes authorizations of new budget authority
3/31	CBO report	Spending bills reported in House; CBO report	Budget resolution completed
4/15		Spending bills reported in Senate	Appropriation bills reported
6/15		Second budget resolution reported	
7/15		Congress completes spending bills	
8/1		Second budget resolution completed	
Labor Day plus 7 days		Congress completes spending bills	
9/25		Congress completes reconciliation	Congress completes reconciliation
10/1		Biennium begins	Biennium begins
Adjournment	Authorizations of new budget authority for next biennium finished		

SOURCE: Congressional Budget Office.

effect on January 1, 1988. During 1988, the Congress would pass year-ahead authorizations and an annual budget for fiscal year 1989. The first biennial budget would be enacted in 1989. 2/

S. 286

The process set out by S. 286 resembles the original Congressional Budget Act process stretched out over a two-year period. The President would begin the process by submitting a budget on January 15 of the first session (odd year) of a Congress for the biennium beginning on October 1 of the second session (even year). The first year would be devoted to passage of a budget resolution (by the end of July) and the authorization of new budget authority (by December 1). The President would submit a revised budget on January 15. Bills that provided budget and entitlement authority would have to be reported by March 31 in the House and April 15 in the Senate. A second budget resolution would be completed by August 1, and a reconciliation bill might then be necessary and would be scheduled for passage by September 25. One hundred hours of debate would be allowed on a reconciliation bill in the Senate. If S. 286 were passed, it would become effective at the start of the 101st Congress. The bill establishes a transition to a biennial process by having the Congress enact an annual budget for fiscal year 1990 and a biennial budget for fiscal years 1991 and 1992. 3/

H.R. 22

H.R. 22 proposes the greatest departure from the previous or the existing budget process. Like S.286, it requires the President to submit a budget on January 15 of the first session of a Congress for the

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2. S. 416 also permits amendment of the first budget resolution only if two-thirds of both the House and the Senate agree, and establishes a point of order against violating the Balanced Budget Act's maximum deficit amount for each year in the biennium. It requires reporting of all 13 regular appropriation bills before considering an appropriation bill on the floor, extends CBO cost estimates to six years, and mandates that the account structure of the President's budget be used in all Congressional budget actions.

3. S. 286 requires that the account structure of the President's budget be used in all Congressional budget actions, requires committees to file oversight reports by the beginning of the biennium, and establishes an automatic continuing resolution at the previous rate of operations. In addition, it prohibits reconciliation until after the second resolution and limits reconciliation to changes in entitlement authority, revenues, and the debt limit.

biennium beginning on October 1 of the second session. The Congress would not take any action on the budget for most of the first year, however. The first six months would be reserved for oversight activities. On July 1, committees would begin considering authorizing legislation, and would have to report authorizations of new budget authority by the end of the year. These bills would have to be enacted by the following March 10.

Preparation of the budget resolution would begin with the submission of views and estimates reports by October 31. After receiving a Congressional Budget Office report on November 10, the Budget Committees would report budget resolutions by November 30, and then wait for a revised President's budget on January 15. The budget resolution would be completed by March 31. The rest of the period until September 25 would be devoted to passing spending bills and reconciliation. If H.R. 22 were passed, it would become effective with the 101st Congress. The bill as drafted neglects to allow for a transition year in 1989 for the fiscal year 1990 budget.

Biennial Budgeting Timetables

Though this paper is not a detailed review of the specifics of the biennial bills, this section discusses a few issues regarding the feasibility of the bills' timetables.

H.R. 22. This bill would ask that the President's budget be submitted on January 15, but committee views and estimates reports would not be due until October 31. The CBO report would be released on Novem-ber 10 and the budget resolution reported by November 30. The Presi-dent would then release his revised budget for the upcoming biennium on January 15.

This schedule would seem to encourage reestimates during preparation of the budget resolution. The views and estimates reports would be based on a President's budget submitted nine months earlier and would not benefit from the CBO report, which would be released 10 days later. The budget resolution would be reported but not passed before the President's revised budget was submitted. The revisions in the budget would probably require the Budget Committees to revise their reported resolutions. In contrast to this long period for preparing the budget resolution, H.R. 22 allows only 15 days from the adoption of the budget resolution to the date that appropriation bills are supposed to be reported.

S. 286. This bill establishes long periods between each target date. The CBO, for example, is given three months to produce its report after the President's budget is submitted. The major timing issue presented by this bill relates to enforcement. The bill repeals many of the enforcement procedures that were formally adopted by the Congress in the Balanced Budget Act. It returns to the original process in which the first budget resolution would not be binding and the second resolution would be completed after spending bills were passed. Reconciliation would follow the second resolution in the two months (August and September) before the beginning of the biennium. The Congress had difficulty under this procedure enforcing the deficit reductions planned in the first resolution. That the Congress could do any better using the same procedure, but over a two-year period, is not self-evident.

S. 416. Like H.R. 22, this bill allows a short period from passage of the budget resolution to reporting of appropriation bills. It is even more optimistic in expecting that appropriation bills could be completed after 15 days in the House.

None of the bills include in their model timetables a period for consideration of supplemental appropriation bills or rescission requests. Both H.R. 22 and S. 286 allow a simple waiver of the deadline for reporting appropriation bills.

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CHAPTER III. STATE AND INTERNATIONAL EXPERIENCES WITH BIENNIAL BUDGETING

Arguments for and against federal biennial budgeting often proceed by analogy with budgeting in the states. This is particularly true in the Congress because many Members and Senators have had experience as state legislators or governors and would like to try at the federal level the procedures that they became familiar with at home. International experiences with biennial budgeting are less frequently invoked, primarily because it is rarely used in democratic countries. Multiyear planning, on the other hand, has gained momentum gradually.

The States

A recent survey by the National Conference of State Legislatures (NCSL) concluded that 31 states will adopt annual budgets in 1987, and 19 states will adopt or be operating under biennial budgets (see Table 2). 1/ NCSL's definition of biennial budgeting requires that appropriations be provided for two years, either as separate appropriations for each of the two years (as is done by 14 states) or as a single appropriation (five states). A state is not classified as biennial if the governor proposes a biennial budget but the legislature appropriates for only one year. Florida has followed this practice in recent years.

Other aspects of NCSL's basic categorization may result in an overestimate of the prevalence of biennial budgeting. In 11 of the biennial states--all but one of the biennial states with annual sessions--the NCSL found that major annual reviews of the biennial budget are anticipated by provisions of the states' constitutions or are traditionally performed. In Ohio, for example, a committee of the legislature has made extensive modifications to the enacted budget during the off-year. In some of the states whose constitutions do not anticipate revisions or where annual reviews have not traditionally been made, fiscal crises have led to amendments of biennial budgets. Texas is one example.

1.. Sources on biennial budgeting in the states are Barbara Yondorf, "Annual Versus Biennial Budgeting: The Arguments, The Evidence" (National Conference of State Legislatures, January 26, 1987); Charles W. Wiggins and Keith E. Hamm, "Annual Versus Biennial Budgeting?" (Texas A&M University, August 1984); and General Accounting Office, "Current Status and Recent Trends of State Biennial and Annual Budgeting" (July 15, 1987), "Biennial Budgeting: Summary of the Major Issues" (April 17, 1984), and "Biennial Budgeting: The State Examples" (December 23, 1982).

TABLE 2. FREQUENCY OF BUDGETING IN STATES

State	Frequency	Changes in Frequency a/	Biennial States Only: Revisions Possible	Biennial States Only: Availability of Appropriations
Alabama	Annual	A'76		
Alaska	Annual			
Arizona	Annual			
Arkansas	Biennial		No	One Year
California	Annual			
Colorado	Annual			
Connecticut	Annual	A'71		
Delaware	Annual			
Florida	Annual			
Georgia	Annual	A'74		
Hawaii	Biennial	B'71	Yes	One Year
Idaho	Annual			
Illinois	Annual			
Indiana	Biennial	A'75; B'78	Yes	One Year
Iowa	Annual	A"75; B'79; A'83		
Kansas	Annual			
Kentucky	Biennial		No	One Year
Louisiana	Annual			
Maine	Biennial		Yes	One Year
Maryland	Annual			
Massachusetts	Annual			
Michigan	Annual			
Minnesota	Biennial	A'73; B'75	Yes	One Year
Mississippi	Annual			
Missouri	Annual	A'72		
Montana	Biennial		No	One Year
Nebraska	Biennial	A'72; B'87	Yes	One Year
Nevada	Biennial		No	One Year
New Hampshire	Biennial		No	One Year
New Jersey	Annual			
New Mexico	Annual			
New York	Annual			
North Carolina	Biennial	A'73; B'75	Yes	Two Year
North Dakota	Biennial		No	Two Year

(continued)

TABLE 2. (Continued)

State	Frequency	Changes in Frequency a/	Biennial States Only: Revisions Possible	Biennial States Only: Availability of Appropriations
Ohio	Biennial		Yes	One Year
Oklahoma	Annual			
Oregon	Biennial		No	Two Year
Pennsylvania	Annual			
Rhode Island	Annual			
South Carolina	Annual			
South Dakota	Annual			
Tennessee	Annual	A'70		
Texas	Biennial		No	One Year
Utah	Annual			
Vermont	Annual	A"78		
Virginia	Biennial		Yes	One Year
Washington	Biennial		Yes	Two Year
West Virginia	Annual			
Wisconsin	Biennial		Yes	One Year
Wyoming	Biennial		Yes	Two Year

SOURCE: Barbara Yondorf, "Annual Versus Biennial Budgeting: The Arguments, the Evidence" (National Conference of State Legislatures, January 36, 1987).

a. "A" signifies a change from biennial to annual; "B" signifies a change from annual to biennial.

The states have moved away from biennial budgeting in the past 40 years; 44 states followed the practice in 1940. The "Changes in Frequency" column in Table 2 shows the states that have shifted to annual or biennial budgeting since 1970. One reason for the movement away from biennial budgeting was the professionalization of state legislatures, which accelerated in the 1960s and 1970s. With larger and more competent staffs and with annual rather than biennial sessions, some legislatures felt capable of reviewing budgets annually (Missouri and Connecticut are examples). The growth in federal grant revenues gave state legislatures an incentive to participate annually in the allocation of these funds. Legislatures have also temporarily used annual budgets when the governor was not a member of the majority party in the legislature, and returned to biennial budgets when partisan control became unified (Iowa and North Carolina are examples).

Another cause of the shift to annual budgets has been the increased sensitivity of state budgets to economic cycles (largely because of increased reliance on the income tax as a major revenue source), coupled with balanced budget limits. Under biennial budgeting, large unpredicted shortfalls in revenues as well as smaller unpredicted increases in outlays for uncontrollable benefit programs have often created deficits in state budgets. When states had insufficient cash reserves to finance these deficits, they had to revise their budgets during the biennium to meet their balanced budget limits. Repeated situations like this led some states to convert formally to annual budgeting, the form of budgeting they were practicing in a de facto manner (Vermont, Alabama, and Florida are examples).

The states that have converted to biennial budgeting have done so for a number of reasons. Hawaii wanted to reserve the nonbudget year for program reviews, and Nebraska returned to biennial budgeting to increase control of out-year spending. The Minnesota legislature passed an annual budget in 1974, but a citizen referendum required a return to biennial budgeting.

Other Countries

The experiences of other countries contrast markedly with those of the states. 2/ Budgeting has been an annual process in almost all of the countries of the noncommunist world. Among Western European democracies, only Spain has a history of biennial budgeting. The practice was dropped there in the early 1970s before the end of the Franco regime. Some developing countries with Spanish heritages, such as Peru, have also budgeted biennially in the past, and Bahrain currently has a biennial budget.

The prevalence of annual budgeting in other democratic countries is partially explained by their constitutional structures. Many democratic countries have parliamentary structures in which the political executive is drawn from the legislature. This executive is given the primary responsibility for developing the government's budget as well as managing it. The budget is used as a method of setting forth the government's program and as a test of the government's support. It is usually ratified by the parliament with few changes. When the governing majority in parliament is unstable, however, the budget vote may also provoke a parliamentary crisis by which the government may fall. In these countries, the annual opportunity to test the support for the government is widely thought to be a condition for democratic government.

This purpose of the budget is not important in nondemocratic countries. These countries tend to have more centrally planned economies and would be more likely to use biennial budgeting. Yet nondemocratic countries also tend to be underdeveloped and undiversified; their economies are subject to great variations in economic conditions. The resulting swings in the finances of the governments of developing countries have been frequent, necessitating annual revisions of long-term plans. The International Monetary Fund recommends that developing countries have annual budgeting processes in order to cope with these uncertainties.

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2. Comprehensive information on international budgetary practices has not been compiled. The information in this section was drawn from various articles in *Public Budgeting and Finance* from 1982 to the present; from discussions with country specialists at the State Department, the Federal Reserve, and the International Monetary Fund; and from A. Premchand, *Government Budgeting and Expenditure Controls* (Washington, D.C.: International Monetary Fund, 1983), pp. 137-143.

Though few countries have attempted biennial budgeting, many have expanded the time horizon of budget planning estimates. This move to multiyear planning has been gradual, gaining momentum after the first oil price shock in 1973. Support for multiyear planning has been based largely on the realization that a sizable portion of budgets are transfer payments, and that these payments are long-term budget commitments that erode the annual flexibility of the budget. Multiyear planning estimates have been seen as a useful informational method of controlling these commitments.

Conclusion

If the United States were to adopt biennial budgeting, it would be the only democratic country to follow this practice. The international preference for annual budgeting does not necessarily indicate that biennial budgeting would not work for the U.S. government, however. Because of the unique constitutional structure and experimental political culture of the United States, the experiences of other countries are not directly relevant.

Comparisons to the experiences of states may be more relevant, as the states share the nation's political culture. Most comparisons between state and federal governments would lead one to make negative inferences about the prospects of biennial budgeting. Economic uncertainty and divided partisan control--factors that have caused many states to drop biennial budgeting--are also present at the federal level. In addition, the special characteristics of the federal government may make annual budgeting preferable. The Congress has a greater constitutional responsibility for developing budgets than most state legislatures, and the federal government has a larger and more complicated budget and a different economic role than the states. Only three of the ten largest states use biennial budgeting--North Carolina, Ohio, and Texas--and states that use biennial budgeting are on average smaller in population than those that use annual budgeting. 3/

Yet 19 states continue to budget biennially, which suggests that biennial budgeting can work if certain conditions are present. Unfortunately, studies of state experiences with biennial budgeting have

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3. The mean population difference is 1.4 million, compared with a mean state population of 4.8 million. The median population difference is 0.6 million, compared with a median state population of 3.3 million. Figures are based on 1985 U.S. Census data.

not clearly identified these conditions. Such studies have typically consisted of surveys of state officials about the advantages and disadvantages of biennial and annual budgeting. Not surprisingly, officials tend to prefer current processes.

CHAPTER IV. POTENTIAL EFFECTS OF CONVERTING TO BIENNIAL BUDGETING

What is the optimal period for a budget process? In a search for the optimal period, it is easier to find losing candidates than to agree on the winner. A short period--a monthly budget process, for example--would create continuous uncertainty about government policies Monthly budget votes would be repetitive, and would leave no time to plan or to conduct oversight. In contrast, a longer period--a five-year budget process, for example--would reduce this work load. But unanticipated events and shifts in political priorities would occur frequently during the five years, making the budget obsolete and creating pressure for revisions.

Between the inflexibility of a five-year budget and the inefficient uncertainty of a monthly budget lie annual and biennial budgeting. Proponents of biennial budgeting say that annual budgeting is nearly as unworkable as the hypothetical process of monthly budgeting. They claim that the present process features repetitive votes on the same subject, both within the year and from one year to another. Repetitive votes cause delays in making budgetary decisions that must be made, such as appropriation bills, and also crowd out other activities, such as conducting oversight and considering authorization bills.

Given these problems, proponents offer biennial budgeting as a solution. They believe that recipients of grants will be able to spend funds more efficiently with the extra year of notice made available by a biennial budget. Management of agencies is also projected to benefit, as agencies would have to prepare and defend a budget only once every two years. Agencies might also be able to purchase some goods and services at lower costs, because they could buy in larger batches and offer longer-term contracts than annual budgeting permits.

Flexibility is the base of annual budgeting's support. Annual budgeting allows quick responses to changed economic conditions, to new policy goals, to shifts in public opinion, and to election results. The Congress has also found it to be useful for monitoring and influencing the Executive Branch.

If shifting to a biennial budget schedule would gain some certainty at the cost of some flexibility, how large is this trade-off likely to be? This chapter provides some tentative answers to this question, and describes other trade-offs associated with a conversion to biennial budgeting. The analytical method is to posit four widely held goals for the budget process. These goals are:

- Allocating time efficiently to different activities, such as planning, budgeting, and conducting oversight;
- Completing preparation of the budget by the target date;
- Being appropriately responsive to changed conditions;
- Maintaining the proper influence of the Congress on policy.

The chapter analyzes how lengthening the period of budget preparation might affect the attainment of these goals.

Allocate Time Efficiently to Different Activities

The Congress essentially undertakes three types of activities in the budget process--it gathers information about the problems the country is facing and authorizes programs to address these problems, it allocates funds to these programs, and it monitors the Executive Branch's implementation of its policy decisions. These activities often overlap; the Congress, for example, may learn about problems and the implementation of previous decisions as it considers appropriation requests.

How would the shift to a biennial schedule affect the performance of these activities? Proponents of biennial budgeting hope that some of the time now spent on budget formulation could be freed for oversight, authorizations, and district visits. This change in the mix of Members' activities could improve the quality of their work.

A distinction between biennial budgeting bills is helpful at this point. Both H.R. 22 and S. 416 would have the Congress schedule budgetary and nonbudgetary activities in different periods--an approach referred to here as the "split-sessions" approach. ("Nonbudgetary" in this context includes bills that authorize new budget authority.) S. 286 would have the Congress formulate a two-year budget over a two-year period, allowing nonbudgetary and budgetary activities to be interspersed during this time--referred to here as the "stretch" approach.

The split-sessions approach assumes that the Congress would postpone budgetary action on issues new to its agenda such as drug abuse or the plight of the homeless if these issues arose during a nonbudgetary year. One supplemental appropriation bill would be expected in the nonbudgetary year, but it would be used only to provide appropriations for true emergencies. The split-sessions model similarly expects that the Congress would not conduct oversight during a budget

year, though exceptions could be made for major scandals or controversies.

This approach might not succeed unless the Congress were to revise significantly its rules of procedure. The current rules would not provide a formal means of limiting consideration of spending bills during nonbudgetary periods, and in the absence of such rules, there would be frequent attempts to amend the budget during nonbudgetary periods. Such limiting rules could take various forms, including not allowing the Congress to consider budgetary matters during nonbudgetary periods unless the President requested such action, and limiting supplemental appropriations to project-specific deficiency appropriations or to cases in which statutorily defined "emergency" conditions have been met. 1/

Implementing limiting rules, such as defining "true" emergencies ahead of time, would be difficult. The split-sessions bills do not propose any such rules, and few of the states with biennial budgets and annual sessions have them. Some states that do not revise the budget during the off-year have relied instead on self-restraint, particularly when the nonbudgetary period immediately precedes an election. Others have been lucky, not being presented with unforeseen revenue losses that would have caused balanced budget requirements to be violated.

Split sessions imply substantial modifications to committee activities as well. The current committee structure gives specialized roles to various committees. The Budget Committees spend most of their time preparing and adopting the budget, and relatively little in monitoring spending by the agencies. The Appropriations Committees monitor spending, but almost always in the context of appropriating more funds. The House Government Operations and Senate Governmental Affairs Committees and the subcommittees of many other standing committees specialize in oversight. Unless these committees' responsibilities are changed, the Budget and Appropriations Committees are expected to be inactive during the nonbudgetary periods, as are the oversight committees during budgetary periods.

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1. Similar rules might profitably be applied to supplementals and rescissions under annual budgeting. Pay raises, now provided in supplemental bills, could easily be incorporated into the regular appropriation bills. Section 207 of the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 prohibited the President from repeatedly proposing similar rescission requests.

These potential changes in rules and committee activities heighten the importance of determining whether the process of making budgetary allocations has in fact crowded out authorizing legislation and oversight. The relationship between the budget process and the frequency of authorizing legislation is discussed in the last section. Regarding oversight, research by Joel Aberbach suggests that oversight has not been discouraged by the Congressional budget process. Aberbach compiled data for the number of total and oversight committee hearing days in the first six months of odd years from 1961 to 1983, excluding 1979. 2/ Table 3 shows these data. The time-series shows a sharp increase in the proportion of days devoted to oversight from 1973 to 1975, and another sharp increase from 1981 to 1983. In 1983, a full quarter of hearing days were for oversight, more than double the proportion in 1973. Aberbach concludes that this growth in oversight activities is the result of a variety of factors: budget deficits, public discontent with government performance, Congressional concern about the usurpation of legislative powers by the Executive Branch, and the availability of more Congressional staff to carry out oversight. 3/

Aberbach counted as oversight hearings only those in which the "review of administrative actions" was the main activity. Reauthorization hearings were excluded. Many advocates of biennial budgeting, however, define oversight much more broadly. Under H.R. 22, for example, the "oversight period" during the first six months of a Congress would be devoted to reviewing policy goals and results. All the bills would have the Congress establish policy and program goals in advance authorizing legislation before the budget is considered.

A period set aside for taking stock and planning could be helpful for the Congress, which often focuses much of its energy on the issue of the moment. Similarly, advance authorizations might produce more informed appropriation decisions. These types of scheduling reforms view the Congress as an institution that could follow a very structured process for solving problems. But the role of the Congress as a sounding board for the public's interests may make a structured schedule unattainable.

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2. Joel D. Aberbach, *Keeping a Watchful Eye: The Politics of Congressional Oversight* (Washington, D.C.: Brookings Institution, forthcoming).

3. See also Joel D. Aberbach, "The Congressional Committee Intelligence System: Information, Oversight, and Change," *Congress and the Presidency*, vol. 14 (Spring 1987), pp. 51-76. Another useful source on oversight is the *Congressional Oversight Manual*, prepared by the Congressional Research Service, February 1984.

TABLE 3. HEARING AND MEETING ACTIVITIES OF CONGRESSIONAL COMMITTEES, JANUARY 1-JULY 4

Year	Total Days	Oversight Days	Oversight as Percent of Total
1961	1,789	146	8.2
1963	1,820	159	8.7
1965	2,055	141	6.9
1967	1,797	171	9.5
1969	1,804	217	12.0
1971	2,063	187	9.1
1973	2,513	290	11.5
1975	2,552	459	18.0
1977	3,053	537	17.6
1981	2,222	434	19.5
1983	2,331	587	25.2

SOURCE: Joel D. Aberbach, *Keeping a Watchful Eye: The Politics of Congressional Oversight* (Washington, D.C.: Brookings Institution, forthcoming). Data for 1981 and 1983 are subject to final revision.

NOTE: Activities of Appropriations, Rules, Administration, and Joint Committees have been excluded. Data for 1979, 1985, and 1987 are currently being coded.

Complete Preparation of the Budget by the Target Date

The stretch model would spread budget formulation over a two-year period, giving more time for each stage to be completed. This approach assumes that target dates are missed because there is not enough time between each date--for example, when the budget resolution is late, this leads to unpassed appropriation bills and a continuing resolution. Preparing a budget over two years could allow more time for consultation, and make it more likely that decisions would be made on time.

Though the current schedule may be a cause of the time-consuming and repetitive nature of the budget process, other factors are probably even more important. One structural barrier to quick and binding decisions is the bicameral requirement that the House and Senate agree on all laws. Another is the separation of powers. Some missed target dates and repetitive votes clearly can be attributed to the difficulty of reaching a compromise between the strongly held positions of the President and the Congress. Biennial budgeting is not likely to facilitate such a compromise. Instead, it might increase the difficulty of reaching a compromise if agreements had to be negotiated for two years rather than for one. With the stakes higher, a two-year budget negotiation might take longer than two separate one-year negotiations. To repeat an observation made above, some states have found annual budgeting more useful than their traditional biennial practices during periods of divided partisan control.

Other causes of repetition and delay may be more subject to change. The Congress is a legislature, to which each Member comes with one vote and a presumptive equal say in decisions. A natural result is that the Congress uses a decentralized form of internal organization, distributing decisionmaking powers widely among its Members. It does this in several ways. It divides its responsibilities among authorizing committees and appropriations committees, and these committees make similar types of decisions. The Congress also follows a very complicated budget process that is intended to control the decisions made in the authorization and appropriation processes. Delay and repetition might be reduced by adopting another form of internal organization and another budgeting procedure. In other words, in contrast to biennial budgeting, which would have the Congress prepare fewer budgets, the Congress might make fewer decisions during budget preparation.

The "fewer decisions" approach is embodied in a number of reform proposals, two of which will be described here generally. Both reforms would centralize power over budgetary decisions. In one approach, the

Congress would combine the appropriations and authorizations committees and processes. In another, the Congress would adopt an omnibus budget procedure that would combine the aggregate budget resolution, appropriation bills, and reconciliation into a single bill.

Combined Authorizations and Appropriations Committees. A widespread belief is that the appropriations and authorizing committees should have separate and different roles. The authorizing committees are supposed to make substantive policy by establishing goals and designing programs, and the appropriations committees are supposed to make line-item reviews of agency budgets and then provide appropriations. House and Senate rules establish various points of order to encourage the separation of these activities.

In practice, there has been and is a great deal of blurring of the appropriation and authorization processes. 4/ Both processes currently are used to set policy and allocate funds. Policy is set in appropriation bills through riders. Such "legislative" language in appropriation bills is technically subject to a point of order, but this obstacle is often overcome through waivers or by placing legislative language in continuing resolutions to which the point of order does not apply. Authorizing bills provide permanent appropriations and other forms of "backdoor" spending. In addition, authorizing bills often set line-item floors and ceilings on the amounts that may be appropriated. 5/

It is quite difficult to measure the extent to which the appropriation bills "make policy" and the authorization bills allocate funds. One method is to compare the forms of decisions made during the two processes. These forms are quite similar in the defense area. Annual authorizations and appropriations are routinely enacted for defense programs, and the committees make decisions using the same account

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4. Discussions of the historical relationships between the authorization and appropriation processes are available in Allen Schick, "Legislation, Appropriations, and Budgets: The Development of Spending Decision-Making in Congress" (Congressional Research Service, May 1984); Louis Fisher, "The Authorization-Appropriations Process: Formal Rules and Informal Practices" (Congressional Research Service, August 1, 1979); and W. Thomas Wander, "Patterns of Change in the Congressional Budget Process, 1865-1974," *Congress and the Presidency*, vol. 9 (Autumn 1982), pp. 23-49.

5. That many authorizations are budgetary in nature suggests that enacting advance authorizations would not limit off-year activities to nonbudgetary ones. On the various approaches to multiyear and advance authorizations, see Stanley I. Bach, "Approaches to the Issue of Unauthorized Appropriations" (Congressional Research Service, July 31, 1978).

and program structure. In contrast, the forms of nondefense authorization and appropriation decisions are often dissimilar. Most authorizations for nondefense discretionary appropriations are enacted for multiyear periods or are permanent, and the line-item units of authorizations often do not directly correspond to the lump-sum appropriation account structure. An initial conclusion, then, is that the overlap between appropriations and authorizations is probably greatest in the defense area.

Advocates of consolidation argue, however, that the similarity of the forms of outcomes or of the outcomes themselves is not that important. In theory, the Congress relies on committees to reap the advantages of specialization--expertise and an efficient division of labor. These advantages are not fully realized when two committees are established to deal with the same topic and when their bills are considered separately. When the two committees agree on policy goals, there would seem to be no benefit from first considering the authorization bill and then considering the appropriation bill. This duplication is simply a waste of time if similar amendments to each bill can be proposed from the floor. When the two committees disagree over policy, the case against duplication is still strong, if the bills can be freely amended on the floor. In this case, duplication encourages conflict, which slows up the process. Those who find the current degree of overlap to be large and unnecessary suggest that consolidation of the appropriations and authorizations committees and processes is an obvious way of increasing decisionmaking efficiency. 6/

The opposing view accepts "duplication," to the extent that it is admitted to exist, as beneficial. Redundancy of processes is useful, it is said, to reverse policy direction when conditions unexpectedly change, to reconsider a close division on a controversial issue, or to hold the Executive Branch to a bargain. Furthermore, supporters of the status quo claim that the different forms of appropriation and authorization decisions indicate that the two processes do not substantially overlap. They believe that the two types of committees bring different per-

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6. The Congress has infrequently adopted major committee reforms to reduce overlaps. Landmark reforms were the Legislative Reorganization Act of 1946 and the Senate's acceptance in 1977 of the recommendations of the Stevenson Committee (the Temporary Select Committee to Study the Senate Committee System). In the 100th Congress, S. Res. 260, introduced by Senators Kassebaum and Inouye, would combine the appropriation and authorization processes. It would abolish the Senate Budget Committee and transfer its responsibilities to a "Committee on National Priorities," which would be constituted as a supercommittee of leaders of the other committees.

spectives and skills to their tasks, and that the resulting competition among committees produces better outcomes. Finally, committee memberships, leadership positions, and staffs are valuable assets to Members, as are committee jobs to staffers. Any reform plan would have to promise substantial benefits to offset the costs of lost committee seniority and other assets. 7/

An Omnibus Budget Procedure. The other approach to making fewer decisions within the budget process is the omnibus budget procedure (also known as the Obey plan, after its main sponsor, Congressman Obey). In this procedure, the House Budget Committee would report a budget plan by April 15. This plan would serve as a guide for committee actions, but it would not be debated and voted on the floor. The committees would report separate bills for appropriations, revenues, and direct spending programs, and these bills would be packaged into an omnibus bill by the House Rules Committee. The bill would then be considered on the floor, and the House Budget Committee could offer privileged amendments to the titles of the omnibus bill that exceeded the targets in the budget plan. 8/

The essence of the omnibus reform is that there would be no vote on the House Budget Committee's plan. Because the current budget resolution is only a guideline for further action, the Congress sometimes considers the same issues twice--once during preparation of the budget resolution, and again when the actual budget is passed. (The debate may actually occur three times for programs being authorized in that year.) The votes on programmatic issues in the budget resolution are said to delay its adoption as well as slow consideration of appropriation bills. The omnibus reformers would have the Congress discard point of order and reconciliation enforcement procedures and vote only on actual budget allocations.

Opponents of the omnibus procedure suggest that it would not be workable. Spending committees would probably not feel bound to stay within the Budget Committee's plan unless the committees had en-

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7. Useful sources on committee reform are Roger H. Davidson and Walter J. Oleszek, *Congress Against Itself* (Bloomington, Indiana: Indiana University Press, 1977); and Congressional Quarterly Inc., "The Committee System," *Guide to the Congress*, 3rd ed. (Washington, D.C.: CQ Press, 1982), particularly pp. 466-476.

8. A useful analysis of omnibus budgeting is provided by Allen Schick, "The Whole and the Parts: Piecemeal and Integrated Approaches to Congressional Budgeting," House Budget Committee, Serial CP-3 (February 1987).

dorsed it with a floor vote. Because the omnibus bill would be "must" legislation, it likely would attract many unrelated amendments. Some believe that it would be difficult to construct a majority for an omnibus bill because of objectionable provisions; others fear that logrolling would increase the totals of the omnibus bill.

Many Members and the President complain about the current reliance on the similar continuing resolution procedure. Besides the costs of brinksmanship, the difficulty of understanding and amending continuing resolutions disturbs those who are not members of the Appropriations Committees. From President Reagan's perspective, omnibus bills make it more difficult to exercise the veto and thus strengthen the need for an item veto. 9/

Regardless of whether these "fewer decision" reforms or a stretch model of biennial budgeting is adopted, delay and repetition in budgeting will not be eliminated. The famous "Parkinson's Law," which states that "Work expands to fill the time available for its completion," has a corollary: "A budget decision is not made until a deadline approaches." Delay and repetition are endemic to budgeting, because budgeting is a comprehensive process that resolves macro and micro goals into practical plans.

Even postponing the beginning of the fiscal year did not foster completing appropriation bills on time. Prior to the Congressional Budget Act, late enactment of appropriation bills was a continual problem--46 percent of regular appropriation bills were enacted after the beginning of the fiscal year from 1968 to 1973. 10/ The Congress--acting on the belief that when a deadline is routinely not met, permanently extending that deadline will solve the problem--moved the beginning of the fiscal year from July 1 to October 1. Yet, appropriation bills are still not completed by the beginning of the fiscal year.

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9. As evidence that an omnibus procedure would not work, opponents point to the 1950 omnibus appropriation bill. The bill was approved five weeks after the beginning of the fiscal year, but two calendar months before the passage of the last appropriation bill in the previous year. The omnibus procedure was discarded by the House and Senate Appropriations Committees the next year, in part because of opposition from the House leadership. See Dalmas H. Nelson, "The Omnibus Appropriations Act of 1950," *The Journal of Politics* vol. 15 (May 1953), pp. 274-288; and George B. Galloway, "Consolidated Appropriation Bill," Legislative Reference Service, Library of Congress (October 15, 1953).

10. This figure was calculated from data in General Accounting Office, "Funding Gaps Jeopardize Federal Government Operations" (March 3, 1981).

Additional evidence that repetition and delay cannot be avoided is seen in the budgeting experiences of the Executive Branch. Budget iterations between the Office of Management and Budget and agencies, which are similar to what is called duplication in the Congress, are frequent. A good example in this Administration has been the continual battle over defense spending, which started each year with the planning targets and continued all the way through the Director's Review. The Executive Branch has also often found it difficult to meet the dates set out in its budget preparation schedule.

Be Appropriately Responsive to Changed Conditions

The Congress is first and foremost a political body, designed to represent the interests and desires of the public. It consequently often revises previous decisions when public opinion changes. Given this special characteristic of the Congress, determining when to revise decisions becomes a balancing act. If the Congress were to make irreversible decisions, it would be foreclosing the opportunity for the public to change its mind (as the public itself changed its composition). Yet, if it were to always allow the national mood--which is often quite variable--to be quickly expressed as policy, it would be making "decisions" that would never stick.

The Congress responds not only to changes in public opinion, but also to macroeconomic, programmatic, and other political events. Only one type of event follows a completely predictable schedule: elections. The biennial budgeting bills differ in their choice of whether the biennium should begin before or after an election. Both H.R. 22 and S. 286 schedule adoption of the budget just before an election. By placing these dates so closely together, these bills might clarify the policy choices that each party presents to the voters. On the other hand, if the electorate dislikes these choices and votes the majority party out of office, the new majority would theoretically be unable to adopt its program for two years. In the past, election results have had significant effects on budget priorities, particularly when a change in Presidential administrations occurs. It is likely, therefore, that the new majority would completely revise the recently adopted budget.

In contrast, S. 416 would have the Congress adopt a budget on a date that is roughly a year after an election and a year before an election. This schedule would allow the Congress to adopt a budget that reflected an election mandate, and permit the public to evaluate the Congress on the basis of a year's operation of this budget. But an upcoming

election, particularly one coincident with a recession, might lead the Congress to revise the budget during the nonbudget year. 11/

The timing and magnitude of other events that might lead to Congressional action are harder to predict. By expanding the length of the budget period from one to two years, projection errors are likely to increase. Larger errors will increase pressure on the Congress to take action. If the Congress responds, some of the reductions in work load expected from biennial budgeting will not be realized.

The greatest source of uncertainty in budget estimates is the inherent unpredictability of the economy. To estimate the effect of making a two-year forecast on the accuracy of budget estimates, a simulation test used in the Congressional Budget Office's August 1987 report, *The Economic and Budget Outlook: An Update*, was extended for another year. 12/ Table 4 shows the results. This test used a time-series model to forecast gross national product (GNP) for fiscal years 1988 and 1989. For 1988, simulating the time-series model 5,000 times (by introducing alternative random shocks) produced a standard deviation for GNP forecasts of $193 billion. The standard deviation is a statistical measure of the dispersion of individual forecasts around the average. It indicates that, given certain assumptions, GNP forecasts will differ from the actual GNP by less than $193 billion about 68 percent of the time. The same procedure produced a standard deviation of $226.6 billion for the fiscal year 1988-1989 biennium. These uncertainty ranges may be translated into ranges for revenue estimates by using a rule of thumb that shows that a $100 billion error in estimating the GNP will tend to result in a $23 billion error in revenues. This produces a standard deviation for revenue estimates of $44 billion for the first year and $52 billion for the biennium. Because actual CBO forecast methodologies differ from the mechanical methods used in this test, the results should be understood as illustrative of the increased

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11. On the relationship between elections and changes in budget allocations, see D. Roderick Kiewiet and Mathew D. McCubbins, "Congressional Appropriations and the Electoral Connection," *Journal of Politics*, vol. 47 (February 1985), pp. 59-82.

12. See pp. 85-86 and 94.

TABLE 4. SIMULATION OF UNCERTAINTY IN FORECASTS OF GROSS NATIONAL PRODUCT AND REVENUES FOR FISCAL YEARS 1988 AND 1989 (All figures in billions of current dollars, except CV)

Fiscal Year	Gross National Product		Revenues	
	Mean	Standard Deviation	Standard Deviation	Coefficient of Variation (CV) a/
1988	4,759.4	192.6	44.3	1.79
1989	5,093.3	275.3	63.3	3.42
Two-Year Average	4,926.4	226.6	52.1	2.40

SOURCE: Congressional Budget Office calculations based on data in CBO, *The Economic and Budget Outlook: An Update* (August 1987), and on CBO simulations of a time-series model for forecasting GNP for fiscal years 1988 and 1989.

NOTE: The correlation between fiscal years 1988 and 1989 is 0.87.

a. The coefficient of variation (CV) is the variance of revenues divided by the mean of revenues. The CV is a scale-free number.

uncertainty in GNP forecasts under biennial budgeting, not as a prediction of CBO's likely performance. 13/

A concrete example of the potential effect of economic uncertainty on biennial budget projections comes from CBO's most recent budget projection. 14/ In November 1987, the fiscal year 1989 budget baseline deficit was estimated to be $186 billion. This estimate was based on CBO's August economic assumptions. The Congress then passed legislation that yielded $36 billion in savings for fiscal year 1989. In February, however, CBO projected the fiscal year 1989 baseline deficit to be $176 billion, an increase of $26 billion from the November baseline adjusted for enacted legislation. This increase was caused primarily by a forecast of slower growth in the economy. If a similar forecast is used by OMB on July 15, 1988, the Congress would need to make additional

13. See also David C. Grinnel, "Implications of Uncertainty in Economic Forecasting Under Gramm-Rudman-Hollings: Options for Congressional Response" (Congressional Research Service, August 8, 1986).

14. CBO, *The Economic and Budget Outlook: Fiscal Years 1989-1993*, (February 1988).

cuts beyond those envisioned in the summit agreement in order to prevent sequestration. 15/

The likely change in projection errors for individual programs is much harder to predict. 16/ Some out-year budget projections for programs could become more realistic under biennial budgeting. Some agency budget estimates currently are too low, apparently because the agencies believe that it would be politically unwise to show the likely long-run costs of programs. In other cases, agency estimates are too high, sometimes to prompt agency contract officers to speed up operations. The incentives to make such misestimates would probably be reduced if appropriations were routinely made for two years. In addition, program characteristics would allow some projection errors to cancel out in two years that would not in one year. Spendout rates for procurement programs could exhibit this effect. For other programs, including many entitlement programs, errors would tend to cumulate.

Increased errors in budget projections would have several effects. At the macro level, it would make it harder to hit a planned deficit target and would give the appearance of losing control over fiscal policy. But part of the reason for missing deficit targets is the feedback of the economy on the deficit, causing the deficit to rise when the economy underperforms. From this perspective, unexpected changes in the economy that produce shifts in deficit projections should not lead to Congressional responses, making the increased uncertainty associated with biennial budgeting less of a problem.

Increased errors in budget projections could be more of a problem at the micro level. Though errors caused by inaccurate assumptions tend to be partially offsetting in the aggregate, they are often large for individual programs. These errors may lead to pressure to consider supplemental appropriations or rescind funds for some activities.

Consider some of the effects of unanticipated changes in interest rates, which are among the most uncertain economic forecast variables. At the program level, a rise in interest rates deepens the subsidies granted by fixed-rate loan programs, thus increasing the demand for loans. If the Congress wanted to reduce the actual subsidies to the planned amounts, it would have to pass bills that increased the fixed

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15. On October 15, 1988, OMB will determine the actual savings required to meet the deficit reduction targets.

16. Policy changes in the budget year distort the previous year's out-year baseline estimates for programs, making an estimate of the change in technical projection errors unreliable.

rates. If the Congress had limited the programs through ceilings on spending, it would have to raise the ceiling if it wanted to provide the deeper subsidy to all applicants. A similar situation would occur for variable-rate loan programs when interest rates declined. Alternatively, the Congress could decide to accept these effects and not take any action, or it could design credit programs that automatically respond to changes in interest rates.

When prices increase unexpectedly, planned purchases of goods and services become more expensive. Under current budget procedures, increased costs would require supplementals for purchases of minimum quantities of necessary goods, such as fuel for the military. Price decreases, on the other hand, could leave agencies overfunded and able to buy more than the Congress intended, which might lead the Congress and the President to consider rescissions.

Not all accounts are sensitive to these and similar uncertainties. Many accounts are for pay and benefits and are very stable. In addition, there are a number of procedures that could allow the Congress to cope with the increased uncertainty of a two-year budget period. The Congress could decide not to respond to minor changes in economic conditions with legislation, and it could automatically adjust the budget resolution for these changes. Pro forma appropriations for appropriated entitlements (such as Medicaid) and for other programs such as the Commodity Credit Corporation could be converted into permanent appropriations. Price variability could be dealt with through new methods of contracting and budgeting for inflation. 17/ A single supplemental could be scheduled for the off-year with rules that would prevent funding for programs not previously authorized.

Other proposals for reducing uncertainty could effectively eliminate some of the potential gains from biennial budgeting. One example would be the practice of simultaneously providing two separate years of appropriations, each with one-year availability. Because the Congress could rescind the second year of funding before it would be obligated, contractors would still charge a premium to compensate for this risk. This would prevent agencies from purchasing goods and services in quantities large enough to minimize prices. 18/

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17. See Congressional Budget Office, *Budgeting for Defense Inflation* (January 1986).

18. See Congressional Budget Office, *Assessing the Effectiveness of Milestone Budgeting* (July 1987), for a discussion of these and related topics.

Maintain the Influence of the Congress on Policy

One trade-off offered by biennial budgeting is that the Congress would replace annual appropriations with more program planning and oversight. How would this change affect the ability of the Congress to properly influence policy? Proponents of biennial budgeting claim that this change in activities would uncover problems not currently detected in appropriation reviews, allowing the Congress to address them. Opponents counter that these benefits would not offset the loss of influence that would result from forgoing the opportunity to make budget allocations annually.

This debate is not about the value of routine annual interactions between the Congress and the President, for it is generally agreed that annual interactions promote cooperation between the two branches. 19/ Cooperation has two components--trust by the Congress that the Executive Branch will implement its directives, and respect by the Executive Branch for the Congress's right to make these directives. The debate is instead about which types of annual interactions promote the most trust and respect, and thus maintain the influence of the Congress on policy.

Throughout its history, the Congress has resolved this issue by following an annual process of making allocations. One way that annual appropriations increase its leverage over the Executive Branch is in providing vehicles for policy riders. Policy riders become starting points for negotiations between the branches because of the "must-pass" character of appropriation bills--if these bills are not enacted, government agencies that lack spending authority must shut down. Even though the Congress often shares the blame for shutdowns, potential shutdowns place pressure on the Executive Branch to negotiate. In the absence of "must-pass" legislative vehicles, the Executive Branch

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19. For a convincing presentation of the argument that cooperation is encouraged by frequent interaction, see Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984). On annuality and cooperation in budgeting, see Aaron Wildavsky, *The Politics of the Budgetary Process*, 4th ed. (Boston: Little, Brown, 1984); and Richard F. Fenno, Jr., *The Power of the Purse* (Boston: Little, Brown, 1966).

would usually not negotiate on policy disputes to the degree that it does now. 20/

Annual appropriations also encourage the Executive Branch to implement the budget in good faith. If agency expenditures are inconsistent with Congressional intent, the Congress may then influence the Administration by withholding approval of its pending appropriation requests (though the Administration may doubt the credibility of such threats). Under the split-sessions model of biennial budgeting, the Congress would instead have to rely on oversight to monitor agency spending and to prod the Executive Branch to spend appropriated funds properly. But oversight can be ineffective when the Administration lacks concern about violating Congressional intent. 21/

The Congress has also used annual authorizations, which often establish spending floors and ceilings in great detail, to order compliance with its goals. 22/ The rules of the Congress establish points of order against unauthorized appropriations, making authorizations priority legislation. Exceptions to these rules, however, are increasingly common. Exceptions are important because as long as appropriations are enacted, funds may be obligated by agencies, regardless of whether annual authorizations have been enacted. These exceptions and the willingness of President Reagan to veto authorizations have led to reductions in the rates of consideration and passage of annual authorizations in the 1980s, which has lessened the utility of annual authorizations for exercising Congressional influence.

The desire for flexibility is another reason for annually considering budget resolutions and making appropriations. Many consider annual budgeting to be the only responsible course of action with large deficits, because it allows recurring efforts to find political compromises

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20. On the value of riders, see Roger H. Davidson, "Procedures and Politics in Congress," in Gilbert Y. Steiner, ed., *The Abortion Dispute and the American System* (Washington, D.C.: Brookings Institution, 1983), pp. 30-46, especially p. 45; and Allen Schick, "Politics through Law: Congressional Limitations on Executive Discretion," in Anthony King, *Both Ends of the Avenue* (Washington, D.C.: American Enterprise Institute, 1983), pp. 154-184, especially pp. 171-173.

21. See James L. Sundquist, *The Decline and Resurgence of Congress* (Washington, D.C.: Brookings Institution, 1981), chapter 11. See also Louis Fisher, *Presi- dential Spending Power* (Princeton: Princeton University Press, 1975); chap-ter 4 provides examples of reprogramming procedures that had not been honored by agencies, leading committees to restate and tighten procedures or to take punitive actions.

22. Louis Fisher, "Annual Authorizations: Durable Roadblocks to Biennial Budgeting," *Public Budgeting and Finance*, vol. 3 (Spring 1983), pp. 23-40.

on deficit reductions. The deficits have caused continued use of the reconciliation procedure to retrench spending in mandatory programs. Flexibility is also the reason why almost all salary and expense accounts are appropriated annually, even though they are the least complex and most predictable accounts of all. 23/

Proponents of biennial budgeting do not agree that these traditional methods of preserving influence and flexibility are as effective as generally thought. They argue that the Congress is organizationally limited in what it can do each year. They also note that the Congress has decided that annual allocations are unnecessary or counterproductive for many programs. The Congress does not vote annually to allocate funds to Social Security and some other entitlement programs, for example, because there is a consensus that these programs are long-term commitments. Nor does it vote appropriations annually to pay interest on the national debt or to fund a multiyear ship contract in annual stages. As a result of similar decisions for other programs, only a fourth of appropriations have been annual appropriations of one-year availability.

Also disturbing to proponents of biennial budgeting are the costs of annual budgeting to those who carry out policies. Annual budgeting is said to encourage "micromanagement"--the assumption by the Congress of what are typically the responsibilities of program managers. Many agencies claim that line-item directives in annual appropriation and authorization bills would reduce the number of directives. If, however, the Congress places directives in bills because it fears that agencies will spend money inappropriately, biennial authorizations and appropriations could contain even more "micromanagement" provisions.

Statements that agency officials will save time and paperwork because they will not have to prepare and justify their budgets each year may be overly optimistic as well. One presumption of biennial budgeting is that the Congress will do more oversight. For the Congress to conduct performance reviews, those doing the performing will presumably have to respond to the requests of the Congress. The format of agency presentations to the Congress might well change, as may the officials who do presentations (line officials instead of budget officials), but agencies' work loads will probably not decline if the Congress vigorously conducts oversight.

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23. The Congress acted in 1934, 1946, 1966, 1970, and 1974 to repeal or study the repeal of permanent appropriations in order to increase flexibility. See Michael D. Margeson and James Saturno, "Congressional Approaches to Biennial Budgeting" (Congressional Research Service, July 27, 1987), p. 9.

Another purported benefit from biennial budgeting has been that it would give grantees--usually state and local governments--earlier knowledge of available funding and allow them to spend money more efficiently. Although this idea has merit, the extent of the benefit would be limited. In the first place, many grants are already predictable. Nearly two-thirds of grants are mandatory, and most mandatory grants are allocated by formulas. An additional 6 percent of grants, in the education area, are forward funded. Forward funding allows an agency to make grants in one fiscal year for the succeeding fiscal year. 24/ To the extent that reconciliation or rescissions do not change these budgeted amounts, grantees already know with some certainty the funds that they will receive. For the remaining grants, the benefit of earlier knowledge from biennial budgeting would apply to only the second year of the biennium, because the grants for the first year of the biennium would be made shortly after the adoption of the budget. 25/

Thus, though the efficiency of budgeting would not increase dramatically under a biennial format, some improvement is likely. This biennial approach could be enhanced by a budgetwide reexamination of the periodicity of budget reviews at the program and project level. Programs that are funded by annual, one-year availability appropriations have traditionally borne the brunt of budget reductions, a tradition that was carried on by the Balanced Budget Act's sequester procedures. Agencies often claim that reductions in these appropriations are of the penny-wise, pound-foolish variety. They commonly cite their failure to make needed investments because appropriations are cut, even though the investments would reduce operating and total costs in the long run. This effect, and the more general risk of budget reductions, encourages agencies to convert their programs into the form of mandatory spending. In the long run, this locks in spending and leads to less flexibility in the total budget.

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24. A number of other grant programs in the education area are authorized to receive advance appropriations, but these appropriations have not been provided.

25. Section 502(c) of the Congressional Budget Act mandated two reports on advance budgeting, published as Congressional Budget Office, "Advance Budgeting: A Report to the Congress" (March 1977); and Office of Management and Budget, "A Study of the Advisability of Submitting the President's Budget and Enacting Budget Authority in Advance of the Current Timetable" (1977). The CBO report cautiously supported reauthorization of grant programs a year before the expiration of the existing authorization. The report also outlined a process for considering which programs could be appropriated on a two-year schedule. The OMB report concluded that advance funding would cause too great a loss of flexibility in the budget year, and proposed the alternative of including in the budget "target amounts" of planned grant appropriations for two out-years.

An alternative means of increasing flexibility would be to strengthen controls on mandatory spending, which would require improved recognition of the full costs of potential multiyear commitments when considering whether to enter into them. It would also require that mandatory spending be reauthorized periodically and subjected to a tough reconciliation procedure. Biennial budgeting might contribute to this approach by shifting the perspective from one year to two, thereby reducing the fixation on one-year spending cuts and making false savings from effective date changes less attractive. With the resulting increase in flexibility in these accounts, the selective biennial approach suggested by the Balanced Budget Reaffirmation Act could be followed with fewer grounds for concern about the loss of flexibility. For example, multiyear authorizations and appropriations could be made for stages of long-term procurements, rather than providing appropriations for variable numbers of units in each 26/

26. See Congressional Budget Office, *Assessing the Effectiveness of Milestone Budgeting*.

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CONTEMPORARY DEVELOPMENTS IN MANAGERIAL BUDGETING

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CONTEMPORARY DEVELOPMENTS IN MANAGERIAL BUDGETING

The quality of financial management--the manner in which public funds are used and accounted for--is a major concern at all levels of American government. After decades of seeking to improve the allocation of resources through comprehensive budget reforms such as planning-programming-budgeting systems (PPBS) and zero-base budgeting (ZBB), many governments have turned to more specialized matters such as the establishment of uniform accounting standards for state and local governments, cash and debt management, incentives for managerial efficiency, and increased auditing of agency performance. Recent moves to improve financial management include: establishment of the Governmental Accounting Standards Board (GASB), enactment of the Federal Financial Managers' Integrity Act (P.L. 97-255), efforts by the General Accounting Office to upgrade financial and internal control systems, appointment of a Chief Financial Officer in the Office of Management and Budget, and a "sense of the Congress" provision in the 1987 Gramm-Rudman-Hollings legislation calling for reform of financial management.[1]

Efforts to improve financial management are also underway in other democratic countries.[2] Denmark and Australia have sought to give managers greater flexibility in the use of appropriated funds, the former by embarking on a major budget reform, the latter by introducing a form of program budgeting. Sweden is experimenting with a triennial budget process (while retaining annual appropriations) for administrative expenditures, to ease the burdens of annual budgeting and focus decisions on objectives and performance. Britain has undertaken ambitious Financial Management Initiatives (FMI) to

monitor and improve the performance of public managers. Developments in these countries may be applicable to financial management in the United States.

Innovations in financial management impinge on budgeting, the principal means by which democratic governments allocate resources among their agencies and programs and the main focus of this report. Managing money is only one of the basic functions of budgeting. Governments also deploy their budget processes to guard against illegality in expenditure, to limit the amount spent, and to formulate programs and objectives.[3] When it is used as a tool of management, budgeting seeks to improve the efficiency of public expenditure. In a narrow sense, the pursuit of efficiency means that the budget is decided in terms of the relationship between the funds provided and the volume of work to be accomplished; more broadly, this orientation stresses conditions and incentives that hold managers accountable for their performance and encourage them within legislatively-set limits, to shift resources from less to more productive activities.

Managerial budgeting--the term applied here to this orientation--decentralizes financial control and operates according to principles of internal control. Managers are responsible for ensuring the propriety and efficiency of expenditures. They are expected to take charge; they do not have to obtain prior approval of each specific expenditure action such as when to hire or the supplies to be purchased; and they are held accountable for their performance. Managerial budgeting clashes with control-driven behavior in which outsiders review agency actions before any money can be spent. Central surveillance, facilitated by controls over inputs, enables controllers such as the central budget staff or the personnel office to intervene in agency operations and to impose their judgments over those of line managers. Managerial budgeting, by contrast, lets managers decide how to spend the money

at their disposal and monitors their performance to determine whether they are meeting cost and output targets.

The developments cited earlier suggest renewed interest in managerial budgeting. The main purpose of this report is to consider the relevance of these developments for the United States. Before doing so, however, it would be useful to review past efforts to improve managerial budgeting. The first part of the report reviews these efforts and seeks to explain why managerial budgeting is underdeveloped in the Federal Government. It concentrates on past efforts to implement performance budgeting in the United States. The second part examines recent innovations whose purpose is to strengthen budgeting as an instrument of management, including triennial budgeting in Sweden and financial management initiatives in Britain. The final section assesses the relevance of these reforms for U.S. practice.

I. PAST EFFORTS TO IMPROVE MANAGERIAL BUDGETING

Government budgeting and other financial management procedures began in the United States (and elsewhere) as means of accounting for and controlling receipts and outlays. This cash orientation was institutionalized in accounting rules which recognized all income and outgo in the fiscal period during which the funds were received or disbursed and in budgeting procedures which imposed line item control over the details of expenditure.[4] Itemized appropriations required agencies to account for funds on the basis of the things purchased such as personnel, supplies, and services. Agencies had virtually no discretion in spending the funds available to them. Not only did they have to adhere to the line item schedules enacted into law, they also had

to obtain outside approval before filling vacant positions, making purchases, and incurring other expenses.

The clear message to agencies was that they should not actively manage public money. To do so would, it was feared, impair the legal basis of financial control and lead to wasteful expenditure. The safe and expected course was to obtain advance approval for every spending action.

The habits of central control were developed when the national government was very small. Federal spending was barely $3 billion in 1930, only about 3% of the gross national product. The New Deal and increases in defense spending tripled the Federal share in GNP a decade later. The number of civilian employees doubled during this period. Federal spending and employment continued to rise during the war years, but though they receded after the war, both remained well above prewar levels.[5]

The growth of government had two related effects on budgeting: it undermined the detailed controls built up over the years, and it spurred efforts to bolster the managerial competence of government agencies.[6] The impact of governmental growth on financial control is well known, so a succinct review will suffice. With growth, individual items of expenditure receded in importance and became less useful means of control. If they had persisted in controlling the details, central staffs would have been overloaded by paperwork and there would have been costly bottlenecks in the everyday operations of government. As expenditures increased, therefore, the Federal Government (and many States and localities) consolidated the items into broader categories, giving agencies broader authority to commit funds without obtaining prior administrative approval from central controllers.[7]

Growth also sensitized governments to the output side of the budget, to the work and services paid for with public funds. Bigness fostered a more

positive notion of the contributions that governments can make to the wellbeing of citizens by financing public activities. It was no longer good enough for budget makers to focus single-mindedly on the items to be bought; they also had to examine the work to be performed. Thus, the loosening of centralized control was necessitated by governmental expansion but justified in terms of modern management. After World War II, "let the managers manage" became a favorite theme of reformers in the United States and elsewhere who portrayed the shift from external to internal control as a means of making those who spend public funds more accountable for their actions.[8]

As things turned out, however, the relaxation of financial controls did not itself ensure a more positive management attitude in spending agencies. Letting managers manage did not mean that they would.

The difficulty of establishing a more managerial basis for budgeting was reflected in one of the major postwar reforms, the 1949 recommendation of the Hoover Commission that the Federal Government should shift to a performance budget. The Commission insisted that "the all important thing in budgeting is the work or service to be accomplished, and what that work or service will cost." In line with this view, the Commission recommended "that the whole budgetary concept of the federal government should be refashioned by a budget based upon functions, activities, and projects."[9] The basic elements of performance budgeting were similar to those generally associated with a well-developed financial management system. These included work measurements and performance standards, the timely comparison of planned and actual performance, the measurement and allocation of costs, and systems of management analysis and evaluation.[10]

Performance budgeting was seen by its advocates as a spur to managerial efficiency. A widely read tract put the argument this way:

> Forced to account for what has been achieved under each periodic allotment, administrators may adjust work plans, procedures, work loads, and timing to accord with facts not known or taken into consideration when the program was originally drafted....Subordinates who are expected to account for attainment of specified objectives through regular progress reports will...have their employees so organized and supervised as to meet the goals which they helped to formulate for their units.[11]

Looking back at the innovations of almost 40 years ago, spending controls were relaxed. The Budget and Accounting Procedures Act of 1950 gave the President authority to prescribe the "contents, order, and arrangement of the proposed appropriations," and it provided for the budget to set forth the functions and activities of the government.[12] Pursuant to this legislation and other developments, appropriations were consolidated, line items were relegated to supporting schedules, and agencies were accorded greater flexibility in using the funds at their disposal. In 1956, the leading textbook on U.S. budgeting reported that "except for apportionment, budget execution is regarded as a responsibility of department and agency management."[13]

The Federal Government had much less success, however, in making the budget a process for managing resources on a performance basis. The Bureau of the Budget issued some publications on work measurement, but the budget was not prepared nor appropriations made in terms of the volume of work to be performed or the cost per unit of work. A decade after it was launched, performance budgeting had faded from the Federal scene.

What happened to that experiment in managerial budgeting? Part of the answer is that before it could fully develop, performance budgeting was pushed off center stage by the new PPB system that promised more far-reaching improvements than the management reformers had in mind. After PPB was introduced in the Federal Government, hardly anyone cared about performance

budgeting. Not only did PPB crowd out performance budgeting, it also diverted budgeting from management improvement to more exciting analytic issues.

This reorientation was not the principal reason for the failure of performance budgeting. A more fundamental problem was its failure to change Federal management significantly. Once the spending controls were eased, budget reform ran out of steam, for it was more the frustration with old practices than the allure of managerial accountability that engendered interest in performance budgeting. Moreover, divesting unwanted controls was a much easier task than stimulating performance-based behavior. The "let the managers manage" mind-set was suffused with expectations that public managers would eagerly take the initiative if they were given the opportunity to perform. The loosening of rigid controls was seen as a sufficient incentive to motivate civil servants.

This buoyant expectation proved to be a damaging flaw in the drive for performance budgeting. Even after the postwar decentralization, many Federal managers continued to behave as if they lacked sufficient tools to manage. They still felt hogtied by personnel and procurement rules, they still felt their actions watched by outside controllers, and they were reluctant to promise measurable results from public expenditure. Lacking accepted performance measures, they were generally unwilling to view the budget as a commitment to perform an agreed to volume of services at fixed unit costs.

The failure of performance budgeting was paralleled by the failure of the Federal Government to upgrade its financial management capabilities. The Accounting and Auditing Act of 1950 provided for the Comptroller General to prescribe accounting standards and requirements to be adhered to by all Federal agencies.[14] Despite this provision, the inadequacies of agency accounting and reporting systems have persisted for many years. In 1985--35 years after the

1950 Act--GAO found that most of the accounting systems in the 18 Federal agencies it examined were not in conformance with standards prescribed by the Comptroller General.[15] It also reported that there were many hundreds of "material weaknesses" in the internal control systems of Federal agencies.[16]

The performance budgeting experience and the related problems in Federal accounting systems reveal a number of deficiencies which must be dealt with if current efforts to improve financial management are to have some chance of success.

-- Accounting and reporting systems (which were originally designed to enforce legality in expenditure) were inadequate for broader management tasks. Although improvements have been made over the years (largely in computerizing information systems), the application of cost and managerial accounting methods still is quite primitive; hence, cost or responsibility-centered management is rarely practiced in the Federal Government. The lack of modern accounting methods has been due mostly to the legal structure of public sector accounts, but managerial indifference has also been a contributing factor.

-- More than a generation after the Hoover Commission reports, inputs are still widely used as proxy measures of public sector performance. For example, evidence that more is being done to improve education is often measured in terms of the funds flowing to schools, the number of teachers and specialists, and the variety of courses offered. Budgets are not prepared nor accounts maintained in terms of the reading skills of students, measurable improvement in graduation rates, the productivity of teachers, or other performance criteria. Managers and

politicians prefer to focus on inputs because they are more certain of (and have greater control over) the resources provided than the results promised.

-- Relaxation of central control was not accompanied by the introduction of new performance-based procedures. Performance auditing has had limited application, and evaluation has not been systematically related to budget decisions.

-- The capacity and willingness of budget makers to link incremental expenditures to incremental levels of performance is remarkably undeveloped. The basic question of what a marginal increase in resources would buy in added performance cannot be confidently addressed in the budget process. Even when performance data are available, they are not routinely used as the basis for allocating resources.

In view of the fact that financial (and other administrative) controls have been significantly loosened over the years, one is tempted to conclude that the culture of public management, not the procedures of public finance, have sustained the "managers can't manage" attitude. If this is indeed the reason for the under utilization of budgeting as a tool of management, then managers need strong incentives if they are to seek boldly efficiency in using public money. They must not only be permitted to manage; they must be actively encouraged to do so. These incentives were generally absent a generation ago; whether today's managerial reforms offer sufficient incentive is a matter that will be addressed in the final part of this report.

Two abortive innovations of the 1970s warrant brief mention here. Though they had different purposes and processes, each was a form of managerial budgeting. The first, during the last year of the Nixon Presidency and the

first year of Gerald Ford's involved the application of "management by objectives" (MBO) in federal agencies. Each participating agency was required to develop "presidential objectives" in consultation with the Office of Management and Budget. The President approved 144 such objectives in the first MBO round and 172 in the second.[17] Timetables were established for monitoring progress and periodic meetings were scheduled between OMB and agency officials. It appears that the MBO process was never integrated with the review of agency budgets. Over time, the interval between OMB-agency meetings increased, the procedures became less formal, and MBO faded away.[18] A variant of MBO, under the banner of Presidential management initiatives, was launched near the end of the Ford Presidency, but it had no significant impact on agency practices or budget decisions.[19]

The second attempt to introduce managerial budgeting was made by President Jimmy Carter who, shortly after taking office in 1977, ordered all Federal agencies to install a zero-base budgeting (ZBB) system.[20] ZBB structured the budget process around areas of managerial responsibility identified as decision units. Each manager was instructed to submit a set of decision packages showing the incremental performance to be obtained with each requested increment in expenditure. For example, a manager might prepare a set of four decision packages for the decision unit which he or she was responsible for. The least costly package would be below current spending levels; the second package might add resources to bring spending up to current levels; the third package would provide for a small increase; and the final package would request a larger one.[21] In requesting each incremental package, the manager is supposed to specify the additional work or services to be performed if the funds were forthcoming. In design, therefore, ZBB closely links cost and performance, and sensitizes managers to the relationship between these two

sides of the budget. In practice, however, ZBB never realized its managerial potential. It was misunderstood because the "zero base" label was so misleading, and it was disliked because the paperwork was so burdensome. ZBB had little impact on budgetary practice or on managerial behavior during the Carter years; it was discarded when Ronald Reagan became President.

Ongoing efforts to improve financial management. The Reagan Administration has launched a number of initiatives to improve agency management. Under the aegis of "Reform '88", the President's Council on Management Improvement and the Office of Management and Budget have prodded agencies to standardize their accounting systems, modernize their informational processing, establish uniform rules for cash and debt management, undertake specific steps to improve productivity, and upgrade procurement practices. These activities have received greater emphasis under OMB Director James Miller than they had during the Stockman era. The annual budget documents now include a report on Management of the United States Government.

The Reagan Administration has not sought to change the managerial operations of federal budgeting. Nevertheless, several management initiatives are intended to affect either budget procedures or allocations. First, the productivity improvement program established by Executive Order 12552 (February 25, 1986) seeks a 20% improvement in the productivity of Federal agencies by 1992. In an effort to integrate this drive with the budget, OMB was made the lead agency in implementing productivity improvement. According to two key participants, "Budget and productivity integration is taking place . . . less rapidly than some would hope but more rapidly than most would expect."

> Within OMB, the productivity staff on the management side works very closely with the budget examiners. The budget examiners are involved

from the outset in reviewing every productivity plan that accompanies the agency budget submissions. The output data, in particular, are key pieces of information for the examiners and basic to the budget formulation process.[22]

Second, OMB has prescribed a credit improvement program involving the origination and servicing of loans and collection of accounts receivable.[23] The main objectives of this effort are to establish Government-wide procedures for issuing loans and to reduce significantly the amount of delinquent debt.

Third, OMB has required agencies to reduce the number of accounting systems and to establish a Government-wide financial management information system in all Federal agencies. Pursuant to OMB Circular No. A-127, agencies must prepare 5-year plans, as part of their budgets, for developing and operating financial systems.[24]

It is impossible to assess objectively the impact or staying power of these managerial initiatives at the present time. The test of whether they have been institutionalized will come in a few years, when the Reagan Administration will have passed from the scene and new leaders will have their own interests and priorities.[25] Enough is known of the design of the Reagan managerial initiatives, however, to offer some comments about their contribution to managerial budgeting.

First, most of the initiatives emphasize standardization throughout the Federal Government. As a consequence, there has been a shrinkage in managerial discretion and flexibility. The active role of OMB speaks to the centralization of Federal management, in contrast to the basic doctrine of managerial budgeting which emphasizes agency responsibility. Second, the Reagan management improvements have been coming - led with various outlay reduction efforts, such as asset sales and privatization.[26] It sometimes appears, therefore, that the primary objective is to cut Federal spending, not

to engender more efficiency in Federal agencies. Productivity improvement is the principal exception, for it is seen as a means of making programs more efficient. Finally, the lack of attention to budget procedure invites skepticism as to whether the initiatives have significantly affected resource decisions in OMB or in federal agencies.

II. RECENT DEVELOPMENTS IN MANAGERIAL BUDGETING

Some recent efforts to improve financial management were noted in the opening paragraph. Most of these have objectives associated with managerial budgeting: the devolution of management responsibility to operating levels, increased flexibility in using appropriated funds, holding managers accountable for expenditures and results, broader application of performance measures, and closer monitoring of performance.

This section reviews developments in Australia, Canada, and Denmark. It then provides a fuller account of managerial innovations in Sweden and Britain.

Australia. Until a few years ago, appropriations were made and outlays were centrally controlled in great detail. Because appropriations were separately itemized for various categories of expenditure, departments had little flexibility within their total allocations. Transfers between items could be made only with the approval of the Minister for Finance. Centralized financial control was criticized in the 1983 Review of Commonwealth Administration which urged central agencies to "place less emphasis on their detailed control activity . . . . The accent should be on periodic assessment of departmental performance to support limited day-to-day monitoring."[27] This approach was endorsed in the Government's 1984 White Paper on Budget Reform: "the provision of appropriate incentives to managers, including greater

flexibility in the management of the resources for which they have responsibility, will encourage improved performance."[28] Pursuant to the White Paper, the Government consolidated appropriations in program budgets and launched a "financial management improvement program" (FMIP) which is modelled after a similar initiative in the United Kingdom. A central aim of these developments is to establish performance measurement as the basis of budget allocations. Towards this end, the Government has sought to ease constraints on managerial flexibility and to promote results-oriented management. It has taken the position that most of the initiative for improving performance must come from the spending agencies themselves, but it envisions a key role of central agencies in creating an environment that encourages this behavior.

Not surprisingly, the development of performance indicators has been most advanced where measurable outputs are readily available, such as in processing-type operations.[29] To spur work on more difficult but perhaps more important measures, the Government has placed high priority on structural change in the management of public agencies. While it leaves the particular design to each agency, FMIP emphasizes management responsibility for agency objectives and plans at the top, approved statements of program objectives to serve as the basis of agency budget estimates, management information systems tailored to each manager's area of responsibility and focused on the monitoring of results, and a formal evaluation system for assessing performance against objectives and for taking account of the findings in formulating budget proposals.[30]

It is too early to determine whether FMIP and related reforms will significantly alter budgetary behavior. If it were fully implemented, however, FMIP would establish a decentralized, performance-based management system.

Canada. In 1979, Canada undertook a far-reaching budget reform by establishing a Policy and Expenditure Management (PEMS) system. Popularly known as the envelope system, PEMS structures budgeting so as to emphasize competition for scarce resources. It does so by providing for funds to be allocated by Cabinet committees to a small number of resource envelopes. Each envelope is a limit on the total that can be spent within that category.[31] A portion of each envelope is set aside in a policy reserve; these funds are allocated by competition among the programs and agencies in the envelope. An additional amount is held in an operating reserve that is controlled by the Treasury Board and allocated for workload increases and other spending adjustments in approved programs.

PEMS is a top-down system which centralizes decisions on spending policies and priorities in the Cabinet. As originally designed, it did not emphasize managerial efficiency, and some of its features (such as the requirement that savings revert to the policy reserve rather than to the agency making them) may discourage efficient behavior. Recent adjustments in PEMS and other innovations concentrate on improving managerial performance. Access to the operating reserve has been curtailed, so that departments have to finance workload and other cost increases by reallocating funds or by being more productive. Central controls maintained by the Treasury Board are being relaxed because these controls have "provided disincentives for management practices directed to improving efficiency in operations."[32] The Government is introducing "increased ministerial authority and accountability (IMAA) methods which, when implemented, would give spending departments more responsibility over matters previously requiring Treasury Board approval. Along with greater flexibility, departments will be held accountable for performance and use of resources.

Denmark. Block appropriations were introduced in 1965, but a number of important controls were retained, especially with regard to expenditures on personnel. A major budget reform adopted in 1984 extended the principle of managerial responsibility by making more extensive use of block appropriations, reducing detailed financial control, and abolishing the requirement of central approval of all new positions. These reforms are part of a high-priority effort to modernize the public sector by introducing market principles (such as user fees and privatization) and utilizing business management techniques in public agencies. In tandem with this reform, increased attention is being given to performance indicators.

Triennial Budgeting in Sweden. The Swedish Government is pilot testing three-year budget frames in approximately 20 State agencies. (In Swedish budgeting, a "frame" is the amount allocated to a major category of expenditure such as an agency or program.) The Government is also testing procedures which would enable agencies to transfer funds between fiscal years. Both experiments pertain only to administrative expenditures (principally for the purchase of goods and services) which amount to about one-seventh of total central government expenditure. Defense and program expenditures, such as grants and capital investment, are not covered by the experiment.

Triennial budgeting is being launched pursuant to recommendations of the 1985 report of the Government Commission on Central Government-State Agency Relations. The report noted "two contradictory tendencies" in public management:

> On the one hand, the Government has retained a great deal of its previous detailed control of State Agency activities, especially in the field of personnel administration. In times of rapid change--including both expansion and retrenchment--this detailed control makes it difficult for State Agencies to act rationally and

> efficiently. On the other hand, the policy of expansion followed by the Government and Riksdag during the first three post-war decades have resulted in the Riksdag enacting legislation and the Government issuing statutory instructions in many fields which are of such a general nature that extensive policy-making powers have in fact been transferred to the State Agencies.[33]

These contradictory tendencies arise out of unique features of the Swedish system of government, but they also appear in most democratic countries. Swedish government is organized so as to separate the 13 ministries which function as policy organs from the numerous State agencies which administer programs and spend the bulk of public funds. The ministries comprising the Government are quite small; many are staffed by fewer than 100 persons. Together with the Riksdag (the Swedish parliament), the ministries provide policy guidance to the agencies. Although financial management is generally more decentralized in Sweden than elsewhere, the Government still exercises considerable control over agency finances through the budget process and other means. Yet as the scale of government has expanded, these agencies have gained greater flexibility and independence in carrying out public policy.

While these governing arrangements are unique to Sweden, the anomaly of detailed financial control coexisting with broad policy discretion is widespread. In response to this problem, the 1985 report proposed a three-year budgeting process (not just a planning process) which would give agencies multi-year flexibility in managing financial resources while enabling the Government to issue clearer policy guidelines and to monitor performance more closely. The following are some of the recommended features of the three-year budget process:

-- That every State Agency be normally required every three years to submit documentation on which the Government and Riksdag can base decisions concerning its activities for a coming three-year period. This documentation should comprise an analysis of

ongoing activities and proposals concerning changes to be made in those activities.

-- That the Government issue directives, specific to individual Agencies, concerning the process whereby this decision-making documentation is to be compiled.

-- That every three years the State Agencies submit budget requests for a three-year period concerning their administrative allocations.

-- That the Government and Riksdag lay down guidelines for the type of changes which should be made to activities during the coming three-year period.

-- That the State Agencies submit a simplified budget request for the two intermediate years of the three-year cycle, failing Government directives to the contrary with regard to any of an agency's various fields of activity.

-- That authorizations and frames with regard to major investments be included in continuous three-year investment plans.

-- That State Agencies with fixed long-term budget frames be authorized to carry over administrative funds from one fiscal year to another.[34]

The pilot tests now underway generally conform to these recommendations. Although funds are still appropriated annually, at the start of the cycle, three-year resource levels are decided by the Government on the basis of in-depth reviews which focus on the medium-term objectives of each agency participating in the experiment. The amounts set for the out-years are not entitlements, and agencies must go through the annual budget and appropriations processes in the second and third year of the cycle. Nevertheless, the budget reviews conducted for the in-between years are summary and agencies can base their actions on the expectation of getting the planned amounts.[35]

The principal aim of multi-year budgeting is to enable the Government and Parliament more explicitly to establish the objectives which agencies have to fulfill over the three-year cycle, while leaving the agencies more discretion in carrying out their assigned responsibilities. Agencies participating in the

experiment have an increased obligation to provide the information needed for political decisions on medium-term policies, and to report on their activities and performance. To ensure a more thorough review of the three-year budgets, special instructions have been issued to the participating agencies, and their budget preparation cycle has been considerably lengthened. The special instructions require these agencies to analyze their performance during the previous 5 years, to assess the appropriateness of current objectives and arrangements, and to develop proposals for the work to be done and the resources to be provided over the next three years. After negotiations between each affected agency and various policy organs, the Cabinet issues multi-year guidelines and the Government presents three 3-year budget frames to Parliament. Although the frames cover only administrative expenses, the agency analyses and Cabinet guidelines extend to program expenditures as well. In effect, the Government leverages the administrative expenditures to undertake a more probing evaluation of program objectives.

In the first year of the cycle, appropriations are based on the multi-year documents. In each of the two subsequent years, the Cabinet and Parliament simply refer to the multi-year frames and guidelines unless they want to change the agency's activities. Each agency must report on its activities and performance at the end of each of the three years.

The 3-year budget experiment has been launched during a period of retrenchment. Agencies are required to base their requests for administrative expenditures on a planned reduction (in real terms) of 5 percent over three years.[36] To give agencies additional flexibility in coping with cutbacks, the Government is also testing new rules that allow agencies to carry unused funds forward to the next fiscal year and to draw on a portion of future appropriations in advance. While there is no limit on the amount that can be

carried forward, advance spending is generally limited to 5 percent of administrative expenditures. The possibility of drawing on next year's funds is intended to expand the scope for expenditures, such as the purchase of new technology, that require one-time investments.

The Government is monitoring the multi-year experiments with an eye on four principal questions:

-- What kind of documentation is appropriate for allowing objectives to be settled for a multi-year period?

-- Do spending agencies have the capacity to conduct the necessary analysis and report on performance, and do political organs have the capacity to make multi-year decisions on the basis of this information?

-- Is it feasible to give spending agencies sufficient multi-year stability so that they are motivated to restructure their activities and to make other management improvements?

-- How can the Government deal with the increased uncertainty about any year's expenditure outcomes arising from permission to shift money between years?

It will be some years before the Swedish Government assesses the experiment and determines whether to make it permanent. The care with which the 3-year budget frames have been introduced and the high-level attention to them suggests that this test will yield important results for other countries.

Financial Management Initiatives in the United Kingdom. One of the most ambitious and sustained efforts to strengthen managerial budgeting has been made in the United Kingdom through the financial management initiatives (FMI) introduced in 1982 and promoted with great vigor by the Thatcher Government since then. FMI was a response to severe pressure on agency expenditure and

contraction in public employment. Pressure on expenditure began in 1976 when the Government switched from budgeting in volume terms (which adjusted the amounts available or planned for agencies for price increases) to cash limits. These limits, which are imposed on about 60 percent of public expenditure ("demand-led" spending, such as entitlements, is exempt) require agencies to absorb cost increases due to higher than estimated inflation and other factors. In 1982, the Government shifted to cash planning in its annual public expenditure survey (PES) which establishes spending plans three years ahead. This means that if inflation in the out-years is higher than expected or costs rise faster than planned levels, the Government no longer automatically accommodates spending agencies by providing additional cash.[37]

Cash limits and cash planning, along with austere spending policies, led to a sharp reduction in the number of civil servants from 732,000 in 1979 when the Thatcher Government took over to fewer than 600,000 at the present time. The Government further pressured agencies to tighten their belt by undertaking more than 200 "efficiency scrutinies" under the direction of Lord Derek Rayner, a close advisor to the Prime Minister. Most of the scrutinies focused on particular operations or administrative expenditure, some were also used to review policies and objectives. The process of conducting the scrutinies emphasized quick action to remedy specific shortcomings. But although they resulted in identifiable savings, the scrutinies did not produce much lasting change in agency behavior. For one thing, they were conducted by outsiders who came, investigated, reported, and then turned their attention to some other problem. For another, the scrutinies were perceived by the affected agencies to be an attempt to justify additional cutbacks in staff and other resources.[38]

A key development in the emergence of FMI was the introduction of MINIS (Management Information System for Ministers) in the Department of the Environment. MINIS was principally a means of displaying the activities of the Department and the resources consumed in undertaking them, but it became a model often followed by other departments in implementing FMI. A final influence was a 1982 report by the House of Commons' Select Committee on the Treasury and Civil Service. The Committee recommended that MINIS or a similar arrangement be adopted by each department and that line managers be given fuller control over their operating costs. It envisioned within each department "an appropriate management structure, a proper designation of responsibilities and a sufficient flow of information."[39]

The Government formally responded to this report in a White Paper announcing the financial management initiatives. It set forth as FMI's central objective the promotion in "each department an organization and a system in which managers at all levels have:

(a) a clear view of their objectives; and a means to assess, and wherever possible, measure, outputs or performance in relation to those objectives;

(b) well-defined responsibility for making the best use of their resources, including a critical scrutiny of output and value for money; and

(c) the information (particularly about costs), the training and the access to expert advice which they need to exercise their responsibilities effectively."[40]

Inasmuch as FMI is intended to foster managerial initiative, it does not prescribe a uniform system of financial management for all departments. Within FMI's broad objectives and guidelines, each department is free to develop the managing system best suited to its needs. Nevertheless, the Treasury and other central staffs have had an active role in prodding agencies to act and in

shaping the emerging FMI systems. A small Financial Management Unit was set up as a joint venture of the Treasury and the Manpower and Personnel Office. Staffed by about a dozen people drawn from within government and outside consulting firms, its role was to assist departments in developing their own plans and provide overall leadership for FMI. As the conceptual phase of FMI drew to a close, this staff was superseded by the Joint Management Unit whose task is to guide implementation of the effort.

Over the five years that it has been underway, FMI has been progressively broadened from a drive to remedy shortcomings in financial management into a broad effort to change the managerial environment at all levels of public organizations. This broadened perspective has been accompanied by an expansion of FMI from a means of giving agencies greater flexibility over administrative expenses into one that deals with program expenditure as well.

FMI was introduced into an environment in which line managers had little control over the funds at their disposal. One constraint was the rigid separation of personnel and other administrative costs, another was that each department's Principal Finance Officer and Principal Establishments Officer (for personnel) controlled these resources. These centralized arrangements divorced responsibility for resources from responsibility for performance. As a result,

-- Line managers often had little information on the cost or value of the resources they consumed; and

-- Managers could do little to affect the amount or mix of the resources given to them.

To counteract these problems, FMI has sought to take responsibility from the central personnel and finance staffs and give it to senior line managers.

FMI conceives of budgeting as a "contract for performance," in which spending agencies commit themselves to concrete targets in exchange for getting agreed to resources.

> Budgeting is thus a means of delivering value for money against a background of aims, objectives, and targets. A fully articulated budgetary system must comprise control both of the costs of resources used (the input) and of the achievement of a planned level of activity (the output)....Budgeting will only fully realize its potential if it has the support and involvement of top management, if there are strong connections between budgets, outputs and results, and if it operates within a supportive central and managerial environment.[41]

To make the budget into a contract for performance, FMI has promoted delegated (or devolved) budgeting in which responsibility for resources is pushed down the line, with as many decisions as possible made by the manager closest to the work. Government agencies have been reorganized around "cost" or "responsibility" centers, an arrangement adapted from business management in which an identifiable manager is accountable for both work and money.

Yet while it seeks to liberate managers from day to day control, FMI ties them more closely to the objectives and policies of the Government. It does so by concentrating on four lines of development:[42] (1) the clear definition of policy objectives and a firm linkup of these objectives to the annual PES and expenditure estimates; (2) establishment of a top management system in each department responsible for program objectives, performance indicators, and quantified plans of future resource needs and achievements; (3) introduction or improvement of information systems to provide managers timely data on the resources they control and their activities; and (4) changes in the managerial culture of government organizations. Each of these developments is discussed in the paragraphs that follow.

Policy development. At the start, FMI focused on the control of "running costs," the term applied in Britain to administrative expenses. But it was not

long before the Treasury realized that these costs are only a small portion of total expenditures. Consequently, the emphasis has shifted to decisions concerning program expenditures. The Financial Management Unit overseeing the implementation of FMI has devised standards for "policy work" and it has investigated the extent to which these standards were adhered to by government agencies. The standards come quite close to the old PPBS model of budgeting:

-- Objectives should be defined precisely in advance with statements of the results to be achieved and criteria for success;

-- Achievements should be monitored and results evaluated to produce options for change;

-- All policy initiatives should specify how they will be evaluated.[43]

Not surprisingly, case studies found that behavior fell short of these requirements. In many areas, the Government reported, objectives "are not expressed with sufficient precision to allow assessment of whether these purposes are being achieved or not."[44] The Government has placed high priority on overcoming this problem, but its prospects for success are questionable. For one thing it is always hard to get advance specification of objectives and criteria for evaluation; for another, FMI might be ill suited for this task. FMI is a "bottom-up" approach that strives to upgrade the role of line management; centralizing policy work can war against this objective.

Top management systems. To strengthen policy development, the Government envisions a management group at the top of each department whose role, under the direction of the Minister, would be to define strategy, set objectives, allocate resources, and monitor results. With policy "monitored and

controlled, authority can safely be delegated because people will be committed to answering for their performance against targets."[45]

Performance and output measures. Delegation, as this statement indicates, depends on the availability of measures by which performance can be reported and evaluated. FMI has invested a great volume of resources in devising and applying these measures. Those familiar with similar work in the United States should not be surprised to find that (1) no department has yet devised a satisfactory way of measuring the output and performance of policy divisions, because programs vary widely, progress in measurement has been uneven, and the most frequently used measures are those relating to routine operations.[46] One area in which Britain may have surpassed the United States is in publishing performance measures in the budget. Recent public expenditure white papers have included more than 1200 such measures. Most of these have been activity measures, but there also have been a large number of broader performance indicators.[47]

Management culture. The architects of FMI see it as a total management system, not just as a different way to budget:

> The FMI is really a management initiative, not a financial one,.... Much of it--the emphasis on clear objectives, the assessment of performance in relation to those objectives, responsibility for making the best use of resources,.... all of that is by now the commonplace statement of accepted principles of good management.[48]

Here is the way one enthusiastic official characterized the transformed public management of the future:

> ...managers at all levels will be more concerned with performance in terms of outputs and less with administering procedures and purely cerebral analysis. They will be more cost aware, better leaders and motivators of people, and generally more dynamic and innovative in seeking value for money in public services. Officials will be judged as managers of resources and achievers of results.[49]

Changing the culture of management has been impeded by difficulties in altering the relationships between spending agencies and central staffs, especially Britain's powerful Treasury. Departmental participants in FMI are not agreed as to whether the Treasury has changed its behavior. The Minister of State for one department argued that although "Treasury Ministers still go through each programme item by item to explore the scope for savings,...they are increasingly looking for more output measures and performance indicators....".[50] But the Permanent Secretary--the highest civil servant--of the Department of the Environment offered a less favorable assessment:

> We cannot, as I see it, at one and the same time maintain the centralizing attitudes of candle-end control...and at the same time place clear managerial responsibility at all levels to define objectives and use resources to flexibly deliver value for money....If it is to develop fully, FMI will, I believe, need some concessions in traditional attitudes and conventions and powers.[51]

For its part, Treasury has made some concessions and spending agencies now exercise greater flexibility than they had before FMI. But Treasury has been reluctant to withdraw from many of the details of expenditure. "It is necessary," Treasury has insisted in an official report, "to recognize the Treasury's legitimate concerns and requirements arising from its responsibility for controlling the level of public expenditure....the central departments need evidence of robust new systems before they can sensibly relax their existing control mechanisms."[52]

Modifying the culture of management is a difficult, time consuming objective. Shortly after FMI was launched, a Government White Paper described it as "a programme for the life of a Parliament and Beyond."[53] The Thatcher Government is now leading its third Parliament. It remains to be seen whether it will govern long enough and demonstrate sufficient staying power to make a difference in this particular budgeting reform effort.

III. IMPLICATIONS FOR U.S. BUDGETING

It is difficult to appraise managerial innovations during their introductory stage. When the reform is new and still being promoted by the Government, official reports tend to be upbeat and speak of the progress that has been made or is promised. When the Government loses interest, as often happens, the reform is abandoned with little advance notice and without post-mortems.

At this stage of development, therefore, one must be cautious in expecting the current round of managerial budgeting to be more successful than previous ones, such as performance budgeting, were. Changing the culture of public administration, getting central finance staffs to divest themselves of the controls that give them power and access, and prodding managers to reallocate resources for efficiency's sake are all difficult, time-consuming tasks. It should occasion no surprise if financial controls were relaxed somewhat and a bit more performance information were made available, but without bringing about a real transformation in financial management.

Even if recent managerial innovations were successful in other democracies, one must be skeptical about whether they can be transplanted to the very different governing conditions of the United States. In other countries, the key issue is whether government organs such as the Treasury in England, Ministry of Finance in Sweden and Denmark, or the Treasury Board in Canada will let go of the controls they have exercised for decades or longer. In the United States, an additional question is whether Congress would permit sufficient autonomy for managerial flexibility to be possible. The U.S. Congress exercises much more independence than does the national legislature in any other democracy, and it also possesses vastly greater resources for

overseeing and controlling administrative agencies. To Congress, managerial reform may be an invitation for managerial mischief, for agencies to go their own way and disregard legislative intent in spending the funds appropriated to them.

Skepticism is also in order because so many of the ideas which animate contemporary reform are borrowed from the private sector. Rather than inquiring into the characteristics that distinguish public management from business practices, today's reformers seem bent on the wholesale introduction of the techniques and behavior of private management into the public sector. They are motivated by the conviction that business management is more efficient, and that undue concern about the special features of government agencies have led them to be cumbersome and resistant to change.

One encouraging development is that current reforms seem to be more adaptive than earlier ones were. Unlike performance budgeting, PPB, and other innovations which conformed to an idealized model of what constitutes good budgeting, today's innovations seem to be country-by-country adaptations to the problems and opportunities each one faces. The adaptiveness of triennial budgeting in Sweden and FMI in Britain calls into question their application to the United States. Triennial budgeting is a means of dealing with Sweden's unique demarcation between policy-making ministries and administrative departments. Britain's financial management initiatives followed severe cutbacks in public employment.

Yet the basic conditions which have spurred managerial innovations in these countries are present in the United States and many other democratic countries. Contemporary developments in managerial budgeting are byproducts of recent fiscal stress. Faced with the need to curb the growth in expenditures, governments might have behaved as they often did in the past: tightening

financial control and retaking some of the discretion given spending agencies during the postwar growth era. Significantly, however, the dominant trend has been in the opposite direction--to broaden managerial flexibility. Several factors relating to fiscal stress have induced governments to decentralize control and/or encourage managerial initiative:[54]

(1) When budgets are tight and departments face cutbacks, centralization can weaken the incentive of managers to be efficient. If they save money, departments run the risk that the Government will recapture the savings for deficit reduction. While the risk of losing resources by being efficient is a long-standing problem, it is much greater when cuts are being made. The pressure for retrenchment can give rise to "cut as cut can" behavior, with savings being the most convenient targets.

(2) Retrenchment accompanied by tighter control demoralizes civil servants who have less money and less discretion, but often no less responsibility to carry out assignments. Demoralization can lead to an exodus of key managers, loss of initiative, and efforts to subvert or evade the controls.

(3) Budgeting for cutbacks severely limits the capacity of Government to respond to fresh needs and demands. When the budget is growing, Government can allocate incremental resources to new demands, but when less money is available, these demands can be met only by reallocating funds from old to new ones. Tight controls, however, inhibit managers from making substantial reallocations.

The foregoing considerations pertain to potentially adverse effects of centralized control. There may also be a number of positive benefits from increased discretion.

(1) More financial flexibility can be an implicit quid pro quo for getting less money. While agencies do not get the resources they want, they have greater flexibility, including discretion to shift funds within their accounts. Resistance to cutbacks can be eased somewhat by permitting agencies to redirect funds to their priorities.

(2) By withdrawing from the details of expenditure, central budget staffs are less implicated in the details of cutbacks. In effect, they compel agencies to participate in making hard choices and in resisting the demands of interest groups. They also increase the probability that spending limits will be met. By keeping at a safe distance from the details, they avoid being drawn into discussions as to how difficult it is to achieve the expected cuts.

(3) Increased flexibility is often coupled with a squeeze on agency resources, such as across-the-board cuts (Sweden), enforced productivity savings (Denmark), and cash limits (Britain). While these tactics do not save a great deal of money because they are applied only to operating expenditures, they are intended to halt the upward creep in public expenditure due to the "relative price effect," that is, to prices in the public sector rising faster than those in the economy as a whole.[55] (According to this explanation of the progressive rise in public expenditure as a percentage of GNP, if improvements in productivity lag

behind those in the private sector while public wages rise a pace those of employees, then government spending will take a growing share of GNP.)

The managerial innovations and cutback techniques are designed for operating expenditures, but they have little or no effect on transfer programs whose expenditures are determined by law. Most countries, including the United States, normally exempt transfer payments and other entitlements from percentage cutbacks, outlay limits, productivity targets, and similar controls.[56] It turns out, therefore, that discretionary operating costs which account for a declining share of national expenditure are tightly constrained while transfers which often increase automatically in response to economic or demographic trends escape effective control.

Giving managers additional flexibility is one way of responding to the overcontrol of operating expenditures, but it doesn't provide much relief for the overall budget. Australia, Sweden, and Britain are trying to leverage their managerial innovations to review more effectively program expenditures. This is one of the most important objectives of triennial budgeting and FMI, but also one of the most difficult to achieve. A process that concentrates on operating costs at the start might end up by dealing only with this part of the budget. If these interesting innovations deal only with the costs of operation, their value to American conditions will be quite limited.

The remainder of this report will examine the relevance of Sweden's triennial budget experiment and Britain's financial management initiatives for the United States. In considering these innovations, one should be mindful, as noted at the outset of this chapter, of the very different governing arrangements in the United States.

Triennial budgeting. The Swedish experiment offers a possible solution to the annual appropriations versus multi-year budgeting problem. For many years, American reformers have pointed to the inadequacies of one-year-at-a-time budgeting and have urged that the U.S. Federal Government switch to biennial budgets. This reform has been blocked by the persistence of annual appropriations. Even when Congress votes to adopt biennial budgeting, as it did for the defense budget, it retains annual appropriations.

In pilot testing triennial budgets, Sweden has retained annual budgets and annual appropriations. There is a chance, therefore, that it will benefit from what each approach has to offer: an elongated time frame for budgeting and the continued availability of annual control.[57] While the review undertaken for the second and third years of the triennial cycle is supposed to be perfunctory, the Government can intervene more vigorously if it is dissatisfied with agency performance.

Those who urge multi-year budgeting for the United States generally view Congress as the main beneficiary of the longer cycle. They argue that a biennial process would decongest the legislative calendar, increase the prospect of timely enactment of appropriations, and provide more opportunity for oversight by authorizing committees. While these are important considerations, the Swedish version of multi-year budgeting focuses more on the benefits that would accrue to spending agencies. In the United States and elsewhere, these agencies devote uncountable hours to the preparation and defense of administrative budgets which typically vary little from year to year. The tasks of formulating the budget often crowds out attention to programmatic issues, to what the agency intends to accomplish in the years ahead and to its performance in the recent past. By making these program concerns the central focus at the start of the triennial process, Sweden has

significantly increased the likelihood that they will not be neglected in the busywork of annual budgeting.

Sweden's parliamentary form of government offers greater protection than our Presidential-Congressional system can against the temptation to redo the budget in each year of the cycle. No matter how a biennial or triennial process is structured, there can be no ironclad guarantee that the legislative or the executive branch will refrain from reopening issues that were supposed to be settled for the next year or two.

Triennial budgeting might be relevant for the "milestone budgeting" concepts currently being developed on a test basis for a number of weapons systems.[58] Under the milestone budgeting approach, Congress could approve funding as much as 5 years in advance for research and development and procurement of weapons systems. The funds would be provided for each of the development and production milestones that occur during the weapons acquisition process. Congress would not review the funding until the next milestone or until 5 years had elapsed unless problems arose prior to then.

Milestone budgeting is still in an early stage of development, and only a few weapons systems have been nominated for testing. Among the issues that have to be considered before this approach is used more extensively is whether it should be applied only to the authorizations process or to appropriations as well. Sweden's triennial budget experiment suggests a way of applying it to both, but with appropriations still made on an annual basis.

Financial management initiatives. If viewed solely as a managerial approach, FMI-type innovations may be relevant to U.S. agencies. There is evidence that FMI has been heavily influenced by management practices in the United States. The British arms of major American accounting firms have been quite active in promoting FMI and in assisting agencies to develop their own

versions. Nevertheless, there are major differences between the two countries which would require attention. For example, the principle of ministerial responsibility in Britain is not strictly comparable to the role of department heads in the United States.

The United States appears to be significantly more advanced than Britain in applying modern management techniques in the public sector. Program evaluation has been extensively practiced for two decades, and performance measures are widely available in this country. One British budget expert remarked at a 1985 conference on FMI: "Quite frankly, compared to the Americans, we have little understanding of the principles of evaluation . . . . In the USA there is a whole science--there are journals of evaluation and journals of performance indicator measurement."[59] While this comment smacks a bit of "the grass is greener on the other side of Atlantic" attitude, it appears to be amply justified by the extensive progress made in this country.[60]

Yet in a more fundamental sense, Americans have a great deal to learn from FMI. While we know a lot about evaluating programs and measuring performance, we have not been notably successful in applying these to budget decisions. It is not common in the Federal Government to link levels of expenditure to increments of performance nor do we systematically look back at last year's objectives in making next year's resource allocations.

It would not be surprising if FMI were to catch up to U.S. capability in developing output measures, but were to stall on the more difficult task of pivoting budget decisions on them. If the UK were to solve the application problem, its FMI experience would be of great relevance to the United States. Until fuller results are available, it would be prudent to monitor closely British progress.

CONCLUSION

In assessing the relevance of developments in other countries for the United States, it is important to note that the emphasis on decentralization has not taken root here. As previously noted, the main objective has been to standardize various management practices, such as accounting and information systems, and credit and cash management. There has been virtually no effort to give managers more discretion.

Why does the United States differ from other countries? While one factor is differing constitutional arrangements in the United States, contemporary political conditions also might foster centralization. The first explanation suggests that it will be difficult to introduce managerial budgeting in the United States; if however, the second explanation is valid, then managerial budgeting might thrive under different political leadership.

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[1]Section 203 of P.L. 100-119 states: "It is the sense of the Congress that the Congress should undertake a coordinated effort to identify problems and develop specific recommendations to reform the financial management systems of the United States Government, including consideration of the use of generally accepted accounting principles."

[2]Recent developments in the budgetary practices of 19 member countries of the Organization for Economic Cooperation and Development are described in OECD, The Control and Management of Government Expenditure, Paris: France, 1987. Hereafter, OECD Report.

[3]For a discussion of the basic functions of budgeting, see Allen Schick, "The Road to PPB: The Stages of Budget Reform." Public Administration Review, 1966. p. 243-58.

[4]Nowadays, the term "line item" refers to activities within an appropriation account, and (in some contexts) to programs within a budget function. For most of American history, however, line items were specific objects of expenditure listed in appropriation bills. These items often were individual positions, types of supplies, and other expenses.

objects of expenditure listed in appropriation bills. These items often were individual positions, types of supplies, and other expenses.

[5] Trend data on Federal spending and employment are presented in U.S. Bureau of the Census, Historical Statistics of the United States: Colonial Times to 1970.

[6] Concern with administrative management long predated the New Deal. Early developments include the activities of the Cockrell Committee (1887-89), the Cockrell-Dockery Commission (1893-95), the Keep Commission of 1905, and the Taft Commission on Economy and Efficiency (1912). These are briefly reviewed in Louis Fisher, Presidential Spending Power (Princeton: Princeton University Press, 1975), Chapters 1 and 2.

[7] The consolidation of appropriations into lump sums gave agencies greater flexibility in spending money, in exchange for which they were subjected to increased involvement of appropriations subcommittees in reprogramming actions. While there are no government-wide rules for reprogramming, the general trend has been toward more formal review by the subcommittees.

[8] The "let the managers manage" theme is associated with the 1962 report of the Glassco Commission in Canada, formally the Royal Commission on Government Organization. A similar theme was expressed in the 1961 Plowden Report in Britain on Control of Public Expenditure, Cmnd 1432.

[9] See Commission on Reorganization of the Executive Branch of the Government (the First Hoover Commission), Budgeting and Accounting: A Report to the Congress. Washington, U.S. Govt. Print. Off., 1949. p. 8.

[10] See Catheryn Seckler-Hudson, "Performance Budgeting in Government," Advanced Management, March 1953. p. 5-9, 30-32. This widely-cited article is reprinted in Albert C. Hyde and Jay M. Shafritz (eds.) Government Budgeting: Theory, Process, Politics (Oak Park: Illinois, Moore Publishing Company, 1978), p. 80-93.

[11] Kammerer, Gladys M. Program Budgeting: An Aid to Understanding. Gainesville: Florida. Public Administration Clearing Service, 1961 edition. p. 12.

[12] 64 Stat. 833.

[13] Burkhead, Jesse. Government Budgeting. New York: John Wiley & Sons, 1956. p. 354.

[14] 64 Stat. 835. This Act was Part II of the Budget and Accounting Procedures Act of 1950.

[15] U.S. General Accounting Office. Financial Integrity Act: The Government Faces Serious Internal Control and Accounting Systems Problems, GAO/AFMD 86-14, Dec. 1985. p. 17-20.

[16] See Ibid., p. 64 for criteria used by GAO for determining whether a material weakness exists.

[17] The various objectives are listed in two articles by Joel Havemann in the National Journal. The first was "Nixon Approves 144 Agency Goals, OMB Begins Program to Coordinate Policy," National Journal, vol. 5 (Nov. 17, 1973), p. 1703-09; the second was "Ford Endorses 172 Goals of Management by Objective Plan," National Journal, vol. 6 (Oct. 26, 1974). p. 1597-1605.

[18] The MBO experience is examined in Richard Rose, Managing Presidential Objectives, (New York, The Free Press, 1976).

[19] See OMB Circular No. A-113 (November 17, 1976).

[20] For descriptions of zero-base budgeting, see U.S. Senate, Committee on Government Operations, Compendium of Materials on Zero-Base Budgeting in the States, 95th Congress, January 1977.

[21] See Allen Schick and Harry Hatry, "ZBB: The Manager's Budget," in Public Budgeting and Finance, vol. 2, No. 1 (Spring 1982). p. 72-87.

[22] Burstein, Carolyn and Fisk, Donald M. "The Federal Government Productivity Improvement Program: Status and Agenda," in Public Budgeting and Finance vol. 7, No. 4 (Winter 1987), p. 45. At the time of publication, Burstein was the Acting Chief of OMB's Productivity Management Branch and Fisk was a senior official in the Bureau of Labor Statistics.

[23] See U.S. Office of Management and Budget, Management of the United States Government, Fiscal Year 1988. p. 9-24.

[24] Ibid., p. 24-30 and 141-44.

[25] The "institutionalization" of management reforms is considered in Peter M. Benda and Charles H. Levine, President Reagan's Productivity Improvement Program: Deja Vu, Fresh Start to an Old Story, Or Lasting Reform? CRS Report No-86-98S, April 15, 1986.

[26] The President's Management Improvement Program has projected $74 billion in savings over the 1988-92 period. More than half of the non-defense savings were estimated to come from privatization and loan asset sales, and another 30% from user fees. Relatively small amounts would be saved by other management initiatives.

[27] Commonwealth of Australia, Review of Commonwealth Administration, January 1983, Australian Government Publishing Service, p. xvi.

[28] Commonwealth of Australia, Budget Reform, 1984, Australian Government Publishing Service.

[29] Commonwealth of Australia, FMIP and Program Budgeting: A Study of Implementation in Selected Agencies, August 1987. Australian Government Publishing Service.

[30] Commonwealth of Australia, FMIP Report, June 1986, Australian Government Publishing Service.

[31] The PEMS system is discussed in Richard VanLoon, "Stop the Music: The Current Policy and Expenditure Management System in Ottawa," in Canadian Public Administration, vol. 24 (Summer 1981), p. 175-99, and Jerry McCaffrey, "Canada's Envelope Budget: A Strategic Management System," in Public Administration Review, vol. 44 (July/August 1984), p. 316-23.

[32] OECD Report, p. 76.

[33] The Swedish Ministry of Public Administration, The Central Government and State Agencies and their Management, A Summary of Official Reports, 1985. p. 7.

[34] Ibid., p. 18-19.

[35] The description of triennial budgeting is partly drawn from an unpublished paper prepared for a meeting of senior budget officials in June 1987.

[36] The forced shrinkage of resources predates the triennial budget experiment. In the early 1980s, Swedish agencies were required to shrink administrative expenses by 2% a year, after adjustment for inflation.

[37] The development of cash limits and cash planning is discussed in H.M. Treasury, The Management of Public Expenditure, May 1986. See also, Leo Pliatzky, Getting and Spending, rev. ed. Basil Blackwell Publisher Ltd., 1984.

[38] See Peat, Marwick, & Mitchell Co., Financial Management in the Public Sector: A Review 1979-1984, (1984). p. 11-16.

[39] Treasury and Civil Service Select Committee, Efficiency and Effectiveness in the Public Sector, March 1982.

[40] Efficiency and Effectiveness in the Civil Service, Cmnd. 8616, September 1982.

[41] H.M. Treasury, Multi-Departmental Review of Budgeting: Executive Summary, March 1986. p. 8.

[42] See John Fielden, "Policy Objectives and Systems of Control," in Francis Terry (ed.) Financial Management and Public Spending, London, Public Finance Foundation, 1985. p. 22-31.

[43] Robin Butler, "Programme Evaluation: A Central Perspective," in Royal Institute of Public Administration, Policy Management and Policy Assessment, 1986. p. 20-30.

[44] See H.M. Treasury, Policy Work and the FMI, June 1985. p. 1.

[45] Anne Mueller, "The Civil Service in the Year 2000," in Public Finance Foundation, Public Expenditure and Management, 1985. p. 45.

[46] H.M. Treasury, Output and Performance Measurement in Central Government: Progress in Departments, February 1986.

[47] H.M. Treasury, The Government's Expenditure Plans 1986-87 to 1988-89, Cmnd 9702, 1986.

[48] John Cassels, "Financial Accountability," in Developing the FMI Principles, Royal Institute of Public Administration, 1985. p. 33.

[49] Mueller, op. cit., p. 47.

[50] Chalker, Lyda. "Managing a Department--Internal and External Relationships," in Royal Institute of Public Administration, Developing the FMI Principles, 1985. p. 24.

[51] Sir George Moseley, in Ibid. p. 29.

[52] H.M. Treasury, Multi-department Review of Budgeting: Final Central Report, March 1986, p. 33. See Chapters 6 & 7 for steps taken to ease central controls.

[53] Progress in Financial Management in Government Departments, Cmnd 9297, July 1984, paragraph 32.

[54] These explanations are adapted from Allen Schick, "Micro-budgetary Adaptations to Fiscal Stress in Industrialized Countries," Public Administration Review, January/February 1988.

[55] The relative price effect is often labelled "Baumol's disease," after economist William J. Baumol who first identified the problem in "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis," in American Economic Review, vol. 57, (1967), p. 415-26.

[56] For example, most entitlements have been exempted from the percentage cutbacks prescribed by the Gramm-Rudman-Hollings process.

[57] The United States seems to have a .lar arrangement: annual appropriations and multiyear budget resolutions. But unlike the Swedish version, the three-year budget decisions in the United States do not make commitments with respect to the out years, nor do they lead to less detailed review in the annual appropriations process.

[58] The issues relating to milestone budgeting are thoroughly discussed in Congressional Budget Office, Assessing the Effectiveness of Milestone Budgeting, July 1987.

[59] Ann Robinson, "FMI and Parliament," in Developing the FMI Principles, Ibid., p. 42.

[60] See, for example, the work done by Harry Hatry and published by the Urban Institute.